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Legislative Budget Analysis 2013 Biennium

Volume 7—Agency Budgets

Education (Section E)
Long-Range Planning (Section F)

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Legislative Fiscal Division

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Legislative Budget Analysis

2013 Biennium

Volume 7 – Agency Budgets

Presented to the Sixty-Second Legislature

Submitted by the

Legislative Fiscal Division

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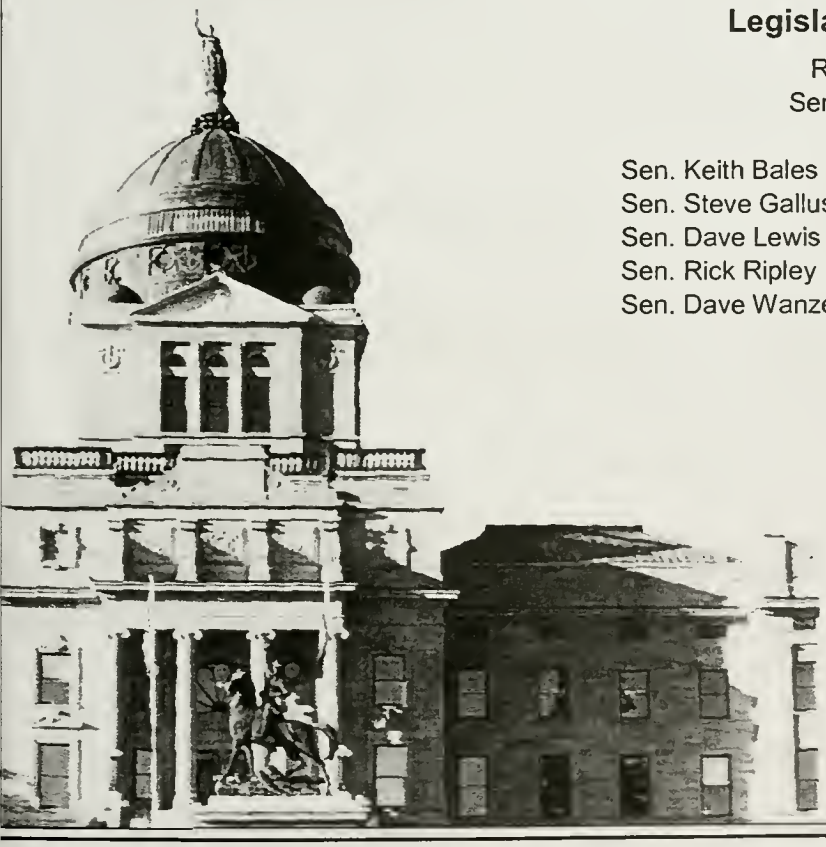

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AGENCY SUBCOMMITTEE GROUPINGS

The following sections (A through F) provide a detailed explanation and analysis of the executive budget for each agency and agency program that contains appropriations in HB 2. The agencies are grouped by functional categories that mirror agency groups by appropriations subcommittee. The groups are summarized below. Programs funded with proprietary funds are not funded in HB 2, but an explanation and analysis of these programs are included in each agency narrative for the purpose of legislative rate-setting.

GENERAL GOVERNMENT (Section A)

- Legislative Branch
- Consumer Counsel
- Governor's Office
- Secretary of State
- Commissioner of Political Practices
- State Auditor
- Revenue
- Administration
- Commerce
- Labor and Industry
- Military Affairs

HEALTH AND HUMAN SERVICES (Section B)

- Public Health and Human Services

NATURAL RESOURCES AND TRANSPORTATION (Section C)

- Fish, Wildlife, and Parks
- Environmental Quality
- Transportation
- Livestock
- Natural Resources and Conservation
- Agriculture

JUDICIAL BRANCH, LAW ENFORCEMENT, AND JUSTICE (Section D)

- Judicial Branch
- Crime Control Division
- Justice
- Public Service Regulation
- Office of Public Defender
- Corrections

EDUCATION (Section E)

- Office of Public Instruction
- Board of Public Education
- School for the Deaf and Blind
- Montana Arts Council
- State Library Commission
- Montana Historical Society
- Commissioner of Higher Education
- Community Colleges
- University Units and Colleges of Technology
- Agricultural Experiment Station
- Montana Extension Service
- Forestry and Conservation Experiment Station
- Bureau of Mines & Geology
- Fire Services Training School

LONG-RANGE PLANNING (Section F)

- Long-Range Building Program
- State Building Energy Conservation
- Long-Range Information Technology Program
- Treasure State Endowment Program
- Treasure State Endowment Regional Water System
- Renewable Resource Grant & Loan Program
- Reclamation & Development Grant Program
- Cultural and Aesthetic Grant Program
- Quality School Facilities Program

Where can you find each section in the *Legislative Budget Analysis 2013 Biennium*, Volumes 3-7?

Volume 3 contains Section A
Volume 4 contains Section B
Volume 5 contains Section C
Volume 6 contains Section D
Volume 7 contains Sections E & F
Volume 8 is on the LFD website

AGENCY BUDGET ANALYSIS (ROAD MAP)

The purpose of the "Agency Budget Analysis" (LFD Volumes 3 through 7) is to provide a resource for legislators and members of the public to understand and allow for action on state agency budgets. It is designed to be a working document for use by the joint appropriations subcommittees. It does this by:

- Detailing components of the executive budget
- Raising budget and other issues for legislative consideration

This section provides a roadmap for using the Agency Budget Analysis volumes by discussing each component.

BUDGET TIERS

The section is constructed based on the statutory requirement that the budget be presented in three tiers:

1. Base budget;
2. Present law budget; and
3. New proposals.

(For a further explanation of these tiers and how they are derived, see page 1 of the "Reference" section, or the publication entitled "Understanding State Finances and the Budgeting Process", available through the Legislative Fiscal Division and on the Internet at http://leg.mt.gov/content/publications/fiscal/leg_reference/Understanding_State_Finances.pdf). The analysis is presented in a manner to allow the legislature to see and act on each present law adjustment and new proposal made to the base budget to derive the executive budget, by summarizing and raising issues with those adjustments.

LEGISLATIVE FISCAL DIVISION (LFD) ISSUES AND COMMENTS

While LFD staff has written the entire analysis document, parts are meant strictly to explain what is in the executive budget in a way that does not justify or advocate the executive position.

The heart of the analysis is in two areas:

1. The LFD issues and comments provided on the proposed budget. If the LFD analyst has raised an issue with anything contained in the executive budget or with any other aspect of agency operations and expenditures, it is included as an "LFD Issue". The analyst may also provide additional information to aid the legislature in its decision making under the heading "LFD Comment". All issues and comments are clearly identified in the narrative; and
2. Other issues and options. In order to provide the legislature with alternatives to the executive budget, as well as budget-making flexibility, LFD staff has provided other issues and options for consideration by the legislature.

COMPONENTS OF THE AGENCY BUDGET ANALYSIS

For all multiple program agencies, the narrative is divided into two parts:

1. The agency narrative; and
2. The program narrative.

Agency Narrative

The agency narrative provides an overview of the executive budget and other issues and options for that agency. Since the legislature appropriates at the program level, only issues raised in the analysis with an agency-wide or multiple-program impact are discussed at this level. All other discussion occurs within the relevant program narratives.

Each agency narrative has the following components.

1. The **Main Table** shows the adjusted actual expenditures and appropriations of the current biennium and the executive request for the upcoming biennium by year. The reader can use this table to get a general idea of the size and funding of the agency, and compare the upcoming biennium totals to the current biennium.
2. The agency organizational chart follows, with contact information, and funding and FTE information for each unit of the agency in the chart. If the agency spends statutory or proprietary funds, they are listed separately
3. Two tables compare sources and funding and types of expenditures as proposed by the executive for the upcoming biennium to the current biennium.
4. **Agency Description** is a brief description of the agency, along with its mission statement.
5. **Agency Highlights** is a table showing the principal factors influencing the budget and any related discussion. It is designed to aid the reader in gaining an understanding of the overall agency budget or significant budget areas.
6. **Agency Discussion** provides additional information or overarching discussion. In addition, if the previous legislature funded any new initiatives of an agency-wide nature, a brief update is provided. For each agency, a recap of any agency-wide goals and objectives monitored by the Legislative Finance Committee during the interim, are listed and discussed as appropriate, as are any goals the LFC recommends the legislature review during the legislative session.
7. **5% Reduction Plan** provides a table and discussion on the statutorily required plan by agencies to reduce base expenditures by 5%. The LFC recommends that the starting point be the adjusted base minus this plan.
8. **Personal Services** provides the legislature with pertinent data on personal services that would allow the legislature to identify and address those factors impacting personal services expenditures and related policy issues. Factors addressed in this section include market salaries and obstacles to achievement of market goals. The program sections address other, program specific questions.
9. **Funding** is a table and related discussion that shows the total biennium funding, by program and fund type, proposed by the Governor.
10. **Statutory Appropriations** is a table showing any statutory appropriations received by the agency, in order to provide a more complete picture of total appropriations.
11. **Budget Summary by Category** summarizes the executive budget by base budget, statewide present law adjustment, other present law adjustments, and new proposals proposed by the Governor for each year of the biennium.
12. If included by the executive, a discussion of the following two types of proposals is included, each with LFD comments as appropriate:
    - **Supplemental Appropriations** discusses supplemental appropriations recommended by the Governor for current fiscal year, or supplemental appropriations approved in the last fiscal year.
    - **Reorganizations** details any major reorganization that took place in the current biennium or is proposed by the executive for the upcoming biennium
13. **Language** includes any agency-wide language proposed by the executive.
14. **Executive Recommended Legislation** is a listing and discussion of any legislation with a likely fiscal impact proposed by the executive and pertinent to the agency. This section is designed to

alert the legislature to other legislation not included in HB 2 that could have a bearing on the agency budget and operation.

15. **Agency Issues** is a discussion by the LFD analyst of any identified agency-wide or multi-program issues. Otherwise, all discussions of adjustments and attendant issues are included in the relevant program narratives.
16. **Elected Officials New Proposals** lists new proposals advocated by agencies headed by either an elected official or the Board of Regents but not included in the executive budget.

Note: The main and budget summary tables, the agency description, mission, and the highlights and funding tables are included in each agency narrative. However, the other components are "optional", indicating they are included only if circumstances warrant.

Program Narrative

Narratives detailing each agency program follow the agency narrative. The program narrative contains the following components.

1. The **Main Table** contains the same information as the agency main table for each program of the department, including adjusted actual expenditures and appropriations of the current biennium and the executive request for the upcoming biennium, by year.
2. **Program Description** is a short description of the program and its functions.
3. **Program Highlights** is a table showing the principal factors influencing the budget and any related discussion.
4. **Program Narrative** details any points of overall program discussion by the LFD analyst. If the previous legislature funded any new initiatives, a brief update is provided.
5. **5% Reduction Plan** provides a program level discussion of any elements of the agency submitted 5% reduction plan that pertain to the program.
6. **Funding** details program funding as proposed by the executive, and any issues raised by the LFD analyst.
7. **Program Reorganization** details any program reorganizations that took place in the current biennium or that are proposed by the executive for the upcoming biennium.
8. **Budget Summary by Category** summarizes the executive budget by base budget, statewide present law adjustment, other present law adjustments, and new proposals proposed by the Governor for each year of the biennium.
9. The **Executive Present Law Adjustments Table** delineates the major present law adjustments included by the executive, by fiscal year and funding source. The table is divided into two sections:
   - Statewide present law adjustments, which include most personal services adjustments, the executive's vacancy savings recommendation, and adjustments due to fixed costs and inflation
   - Other present law adjustments proposed by the executive
10. **Executive Present Law Adjustments** discusses each adjustment proposed by the executive in more detail. The section begins with a discussion that addresses personal services expenditures and policy issues specific to the program, including market rate, vacancies, how the legislatively applied vacancy savings was met, pay changes made outside of any legislative pay changes, and the number of employees eligible for full retirement and the related unfunded liability. This discussion is followed by a description of each adjustment proposed by the Governor. The LFD analyst writes the adjustment descriptions based upon justifications submitted by the executive. It should be noted that it is the responsibility of the LFD analyst to explain a requested change, but not to advocate for or attempt to justify that request. If the LFD analyst has raised an issue with the adjustment, it is presented when the adjustment is discussed.
11. The **New Proposals Table** shows each new proposal requested by the executive, by fiscal year and funding source.

12. **New Proposals** discusses each new proposal in more detail. If the LFD analyst has raised an issue with the proposal it is presented with that new proposal. As with present law adjustments, the LFD has written these explanations based upon submissions by the executive. For certain new proposals (and significant present law adjustments), a discussion submitted by the agency (with editing for clarity and brevity by LFD staff) is included that discusses goals, performance criteria, milestones and timetables, and other information designed to provide the legislature with information with which to evaluate the proposal. LFD staff provides any comments or issues with the submission.
13. **Language** recreates any program specific language proposed by the executive, with LFD comments as appropriate.
14. **Executive Recommended Legislation** is a listing and discussion of any legislation with a likely fiscal impact proposed by the executive and pertinent to the program.
15. **Other Issues** contains any issues identified by the LFD analyst unrelated to a specific present law adjustment or new proposal.

The legislature does not appropriate enterprise funds (which fund operations that provide goods or services to the public on a user charge basis) or internal services funds (which fund operations that provide goods and services to other entities of state government on a cost-reimbursement basis). However, the executive must review enterprise funds and the legislature approves all internal service rates. If the program includes a function supported by either an enterprise fund or an internal service fund, a separate section within the relevant program provides the following:

1. A **Fund Balance Table** shows actual and projected rates, revenues, expenditures, and fund balance through the upcoming biennium; and
2. **Narrative** contains a discussion of the function, a description and explanation of the rate requested, and a discussion of any significant present law adjustments or new proposals impacting the requested rate. The LFD analyst addresses any issues and comments as appropriate.

Statewide Present Law Adjustments

"Statewide Present Law Adjustments" are those adjustments applied to each agency based upon either: 1) factors beyond the individual agency control; or 2) other underlying factors. Because of the global application of these factors and the need for consistency among agencies, these adjustments are included in the "statewide" section of the present law table to alert subcommittees and other decision makers that, if adjustments are made to these costs, adjustments should be made to the underlying factors upon which the adjustments are based. The Legislative Finance Committee (LFC) will make a recommendation on these and other adjustments to appropriations leadership.

Personal Services

Personal services costs are derived by taking a "snapshot" of state employee positions and the factors determining compensation rates at a particular point in time. A number of underlying factors will make the upcoming biennium personal services costs different from actual base year costs. The most important are:

Current Biennium Pay Plan and Other Benefits

If the legislature passed a pay plan that is implemented over the biennium, the base year will not reflect all of the costs that must be paid by the agencies when the pay plan is fully implemented. For example, if the legislature provides a percentage increase midway through the first year and another midway through the second year, base year costs will only reflect ½ of the costs of the first increase.

In addition, any changes made to benefits that an agency must pay directly to or in support of an employee, such as pension, or unemployment and workers' compensation insurance, are automatically reflected in the present law personal services.

Vacancy Savings

Vacancy savings is a reduction in personal services costs that results when positions are not filled for the entire year. Vacancy savings will fluctuate within agencies and programs from year to year. In order to provide the legislature with the opportunity to make all policy decisions regarding vacancy savings, each position is funded as if the position were filled for the entire year, regardless of any vacancy savings that may have occurred in the base year.

Termination Pay

Costs incurred by agencies due to termination of employment, such as accrued sick or annual leave, are not included in present law.

Other Adjustments to Pay

All other changes to salaries authorized during the biennium through the "snapshot" date (July of the base year) are included in present law.

Any adjustments to personal services from sources within the control of the executive, such as overtime, new or deleted positions, or proposed transfers, should not be included in the statewide adjustments. If the LFD analyst has identified any of the adjustments in the statewide adjustment line, they are discussed as an LFD issue or comment.

Vacancy Savings

Any vacancy savings proposed by the executive is included, which results in a reduction of personal services costs. If the executive proposes a vacancy savings rate different from the previous rate, it should be included in a decision package.

Inflation/Deflation

The executive budget has inflated or deflated certain operating expenses. Each agency budget is automatically adjusted to add inflation to or subtract deflation from the relevant expenditure items. Therefore, changes to inflation/deflation amounts in the agencies can only be made through an adjustment to the actual expenditure against which the inflation/deflation is applied, rather than to the inflation/deflation factor, itself.

Note: A complete listing of expenditure categories inflated or deflated in the executive budget has been included in the "Reference" section.

Fixed Costs

Fixed costs are costs charged to agencies to fund the operations of certain centralized service functions of state government (such as information technology, messenger services, and legislative audit). Costs charged to the individual agency budgets are based upon the cost in the service agency and the method used to allocate those costs. These fixed costs are automatically added to each agency budget, as appropriate. Any changes to these allocations must be made through a change to the service agency budget, or to the allocation method used by the service agency. The General Government and Transportation Subcommittee will review the fixed costs proposals.

Note: A complete listing of all fixed costs is included in the "Reference" section

EDUCATION

Section E

JOINT SUBCOMMITTEE OF HOUSE APPROPRIATIONS AND SENATE FINANCE AND CLAIMS COMMITTEES

----------Agencies----------

Office of Public Instruction
Board of Public Education
School for the Deaf and Blind
Montana Arts Council
State Library Commission
Montana Historical Society

Montana University System (MUS)
- Commissioner of Higher Education
- Community Colleges
- University Units & Colleges of Technology
- Agricultural Experiment Station
- Montana Extension Service
- Forestry & Conservation Experiment Station
- Bureau of Mines & Geology
- Fire Services Training School

----------Committee Members----------

House	Senate
Representative Roy Hollandsworth (Chair)	Senator Debby Barrett
Representative Ryan Osmundson	Senator Bob Hawks
Representative Robert Mehlhoff	Senator Llew Jones
	Senator Bradley Hamlett

----------Fiscal Division Staff----------

Jim Standaert
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Proposed (Unified Budget) Budget

The following table summarizes the executive proposed table by agency and funding source.

Unified Budget	Base FY 2010	Approp. FY 2011	Exec. Request FY 2012	Exec. Request FY 2013	Biennium FY 10 - 11	Biennium FY 12 -13	Biennium $ Change	Biennium % Change
Full Time Equivalent (FTE)	461.16	461.16	446.93	446.93	461.16	446.93	(14.23)	-3.09%
3501 Office of Public Instruction	721,810,430	896,204,525	852,668,705	861,439,301	1,618,014,955	1,714,108,006	96,093,051	5.94%
5101 Board of Public Education	384,383	413,221	400,937	406,707	797,604	807,644	10,040	1.26%
5102 Commissioner of Higher Education	240,230,561	264,902,841	266,519,723	276,050,842	505,133,402	542,570,565	37,437,163	7.41%
5113 School for the Deaf & Blind	6,278,484	6,385,358	6,351,366	6,318,450	12,663,842	12,669,816	5,974	0.05%
5114 Montana Arts Council	1,274,192	1,280,792	1,461,300	1,450,058	2,554,984	2,911,358	356,374	13.95%
5115 Montana Library Commission	4,671,608	4,668,378	5,136,697	4,117,321	9,339,986	9,254,018	(85,968)	-0.92%
5117 Montana Historical Society	4,202,780	4,545,008	4,556,910	4,533,241	8,747,788	9,090,151	342,363	3.91%
Total Proposed Budget By Agency	**$978,852,438**	**$1,178,400,123**	**$1,137,095,638**	**$1,154,315,920**	**$2,157,252,561**	**$2,291,411,558**	**$134,158,997**	**6.22%**
01000 General Fund	719,477,679	885,772,254	856,314,462	863,042,676	1,605,249,933	1,719,357,178	114,107,245	7.11%
02000 State Special Revenue Funds	22,137,796	20,908,530	69,389,213	71,423,751	43,046,326	140,812,964	97,766,638	227.12%
03000 Federal Special Revenue Funds	236,345,011	270,630,473	210,474,398	218,933,298	506,975,484	429,407,696	(77,567,788)	-15.30%
06000 Proprietary Funds	891,952	1,088,866	917,565	916,195	1,980,818	1,833,760	(147,058)	-7.42%
Total Proposed Funding	**$978,852,438**	**$1,178,400,123**	**$1,137,095,638**	**$1,154,315,920**	**$2,157,252,561**	**$2,291,411,598**	**$134,159,037**	**6.22%**

Agency Description

The fourteen-member Board of Education (BOE), under authority of Article X, Section 9 of the Montana Constitution, is composed of the Board of Regents of Higher Education (BOR) and the Board of Public Education (BOPE). It is responsible for long-range planning, and for coordinating and evaluating policies and programs for the state's educational systems. The Board of Education is constitutionally required to submit a unified budget request for the state's education system.

Agency Discussion

By statute, the Board of Education is to review and unify the budget requests of the following educational entities:

- Commissioner of Higher Education
- Board of Public Education
- Office of Public Instruction
- Montana School for the Deaf and Blind
- Montana Library Commission
- Montana Arts Council
- Montana Historical Society

The unified budget request is then submitted to the Office of Budget and Program Planning by the state agencies for inclusion in the Governor's executive budget. The drafters of the constitution included the unified budget submittal so that the funding allocations to the various components of the educational system were "threshed out together, so that when the legislature was asked for an amount, there would have been some agreement reached between all phases of education." A unified budget request allows the BOE to determine the total amount of the biennial budget request for the educational system and the amount of the total that they would recommend allocating to each portion of the budget. BOE can prioritize the long range policies for the educational system within the budget. In periods of scarce resources, a unified budget request allows the BOE to determine which programs will be reduced, increased, or postponed until additional resources are available. It also allows BOE to review the various programs and requests for additional funding in the education system as a whole and further its related policies by reflecting them in the budgets requested by the agencies.

The proposed (unified) budget shows the state agency budgets that are required by statute to be part of a BOE submitted unified budget. However, the BOE did not provide a unified budget proposal request to the 2011 Legislature to review.

Rather, the executive proposed a unified budget that does not include the cultural education agencies. Per 2-15-151, MCA the cultural agencies are also allocated to the BOE for the purpose of planning and coordination.

LFD ISSUE

Definition of the Unified Budget

The Montana Constitution requires that a unified budget be submitted for the state's education system. By statute, the legislature has chosen to include the cultural agencies in this definition. This statute has not been updated since 1985. The legislature has the option of revising the definition of the unified budget to remove the cultural agencies from this definition. In doing this, the legislature would examine a unified budget including the Board of Public Education, the Office of Public Instruction, the Commissioner of Higher Education and the School for the Deaf and Blind. A committee bill would be needed to implement this change.

Biennial Changes in the Proposed Unified Budget

The proposed unified budget request totals $2.3 billion for the 2013 biennium. The request is $134.2 million higher than the 2011 biennium. The general fund supports 75% of the unified budget in the 2013 biennium. State special revenue accounts for 6.1% and federal funds provides 18.7% of the unified budget. Key issues driving the budget are the following:

- The $96.1 million increase for OPI represents inflationary adjustments of 1.53% in FY 2012 and 1.9% in FY 2013, adjustments for ANB entitlements, and increases to cover higher than average trust land revenues due to the leasing of Otter Creek coal tracts.
- The $37.4 million increase for the Commissioner of Higher Education is primarily due to the executive's recommendation for increased funding for the state's community colleges and an increased state percent share for university units' present law adjustments, increased assistance for tribal colleges, reinstating some of the one-time-only appropriations included in HB 645 passed by the 2009 Legislature, and two new initiatives requested by the Governor for dual enrollment and the university units.

The unified budget also incorporates the funding changes associated with American Reinvestment and Recovery Act (ARRA) State Fiscal Stabilization Funds (SFSF) that were appropriated in HB 645 by the 2009 Legislature. HB 645 allowed the university system and the Office of Public Instruction to fund certain of these expenditures with general fund the for 2013 biennium. The funding switch for MUS is $59.1 million and for OPI the switch is $29.2 million.

The general fund increase of $114.0 million is attributed to:

- $91.6 million for MUS, of which $59.5 million is the ARRA/general fund switch, and the remaining $31.5 million increase for increased state funding for community colleges, university units, and tribal colleges.
- $22.1 million for OPI, which is the net of the ARRA/general fund switch, inflationary increases, decreases in trust land revenues, and the executive proposal to fund quality educator payments with state special revenue.
- Small increases in general fund to the Board of Public Education, the School for the Deaf and Blind, and the Historical Society, offset by decreases in general fund in the Montana Arts Council and the Montana Library Commission.

For detailed discussion on agency budgets within the unified budget, see the funding section of each agency.

Utilizing Shared Policy Goals to Allocate Resources

The 2009 Legislature approved SJR 8 to urge the Board of Regents, Commissioner of Higher Education, Superintendent of Public Instruction, and the Board of Public Education to work with the Education and Local Government Interim committee (ELG) to develop K-20 shared policy goals and accountability measures for the purpose of program evaluation and as a guide for legislative funding decisions. During the interim, representatives from each group worked with a subcommittee of the ELG to develop such goals. The shared policy goals and accountability measures were agreed to at the August 2010 meeting of the ELG. Each component, K-12, K-20, and the Montana University System, has a set of policy goals and accountability measures that relate to the unified budget.

The agreement is actually an understanding that the statewide public education policy goals and related accountability measures will be used as a policy goal setting and assessment tool for policymakers, the state education boards and agencies, and the general public in evaluating the achievement of the policy goals; and that will be used, in conjunction with 20-9-309, MCA, as a guide to drive decision making and funding mechanisms for the state funding that is appropriated to the K-20 public education system by the legislature.

The Legislative Finance Committee recommends that the shared policy goals and accountability measures be considered during the appropriations process. For this purpose, the K-12 and the MUS shared policy goals and accountability measures are included in the agency overview of the Office of Public Instruction and the Office of the Commissioner of Higher Education. The K-20 is discussed here.

K-20 Shared Policy Goals and Accountability Measures		
Shared Policy Goal	Objectives	Accountability Measure
Align high school outcomes with college readiness expectations to facilitate the transition from high school to college	Decrease remediation rates of freshman entering the Montana University System from Montana public high schools	Remediation rates of freshman entering the Montana University System from Montana public high schools steadily decrease. [Measure -- 5 year trend data]
Increase college participation of Montana high school graduates	Increase the percentage of Montana high school graduates who participate in accredited postsecondary education	Increase the percentage of Montana high school graduates enrolling in college. --All postsecondary -All Montana postsecondary .-MUS [Measure -- 5 year trend data
Expand distance learning opportunities	Create easy access to distance learning opportunities through the development of a virtual academy and through improvements to current virtual college capabilities	Montana high school students who participate in distance learning -Higher Ed baseline distance learning enrollment currently available. -High School baseline distance learning enrollment not currently available, but will be collected starting Fall 2010 [Measure -- 5 year trend data]
Utilize K-20 data to improve student access and achievement	Link K-12 and Higher Education data systems	By June 30,2013, the electronic link between MUS data and OPI data will be established.

The K-20 shared policy goal, focus on aligning outcomes in the K-12 system to facilitate increased participation in and outcomes of the postsecondary system. The underlying focus with these items is the ability to coordinate and share appropriate data to report on the desired accountability measure. The reporting then will allow policy makers to adjust public policy to achieve desired outcomes. The executive has requests that impact the shared policy goals, such as:

- A request to continue funding for the Montana Digital Academy
- Authority for data sharing initiatives funding through federal grants
- Allocations to the MUS that impact college affordability
- Funds for assessments to increase college readiness of high school students

The legislature has the opportunity to discuss the unified budgets in conjunction with the shared policy goals. Appropriations decisions made by the legislature may impact the ability of the state agencies to achieve the shared goals. The legislature may wish to include in the appropriations discussions deliberations on the impact of funding decisions on these shared goals, and if necessary propose to alter the shared goals to reflect the legislatively approved funding levels.

Shared Policy Goals and Accountability Measures – the Future

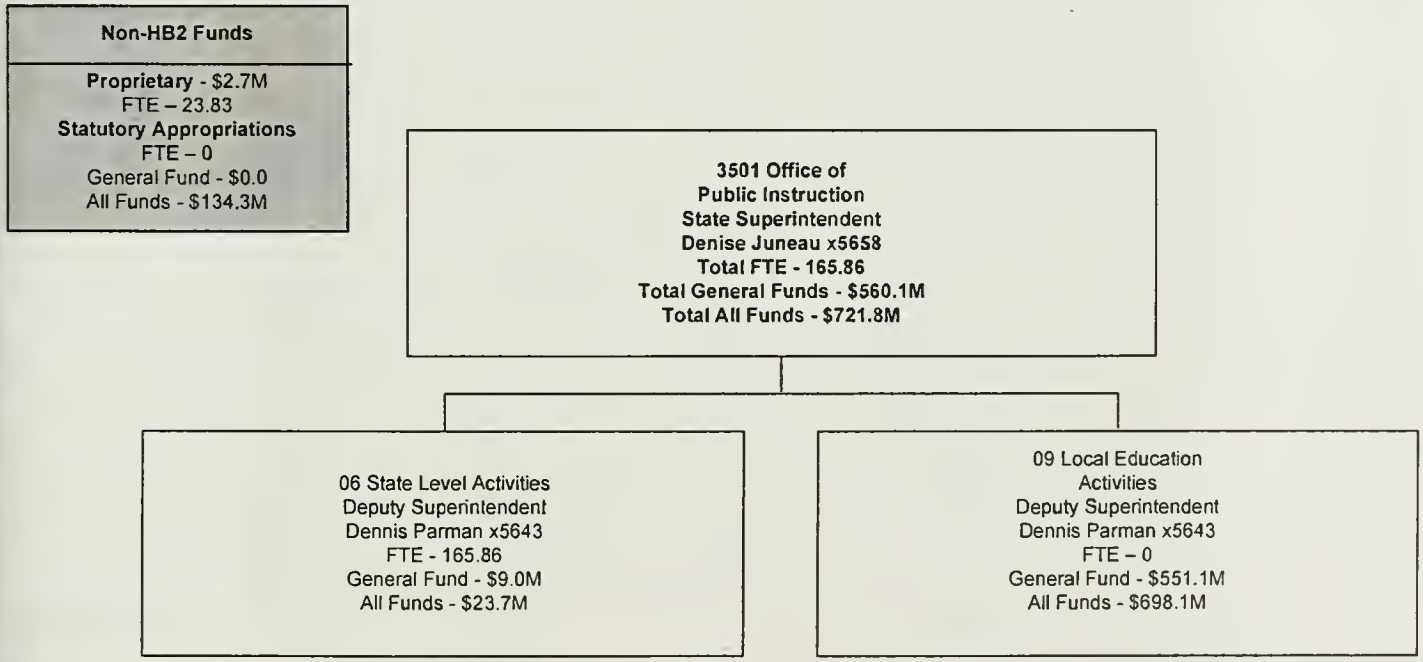
Shared policy goals are a function of planning over time to achieve a specific outcome. In order to analyze the impact of shared policy goals and accountability measures, the activity needs to continue past the 2013 interim, as, without the time commitment, the process loses its value. The legislature may wish to formalize the development and management of the shared policy goals and accountability measures by adjusting the responsibilities of the Education and Local Government interim committee. Current statute, 5-5-224, MCA directs the interim committee to consider the progress of the university system toward its long range goals, but not those of the Office of Public Instruction. The legislature may wish to consider adding the responsibility of the shared policy goals for K-20 to this committee. To do this the subcommittee may wish to request a committee bill.

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	165.86	165.86	165 86	165.86	165.86	165.86	0.00	0.00%
Personal Services	9,958,949	11,582,397	10,676,905	10,674,244	21,541,346	21,351,149	(190,197)	(0.88%)
Operating Expenses	14,806,100	21,595,012	16,036,171	16,067,292	36,401,112	32,103,463	(4,297,649)	(11.81%)
Equipment & Intangible Assets	11,839	50,426	11,839	11,839	62,265	23,678	(38,587)	(61.97%)
Local Assistance	564,594,849	713,487,529	685,768,117	690,860,253	1,278,082,378	1,376,628,370	98,545,992	7 71%
Grants	132,029,203	147,998,651	139,766,183	143,416,183	280,027,854	283,182,366	3,154,512	1.13%
Transfers	409,490	1,490,510	409,490	409,490	1,900,000	818,980	(1,081,020)	(56.90%)
Total Costs	**$721,810,430**	**$896,204,525**	**$852,668,705**	**$861,439,301**	**$1,618,014,955**	**$1,714,108,006**	**$96,093,051**	**5.94%**
General Fund	560,053,258	722,904,404	650,266,733	654,798,000	1,282,957,662	1,305,064,733	22,107,071	1.72%
State Special	975,513	979,051	48,018,021	48,610,569	1,954,564	96,628,590	94,674,026	4,843.74%
Federal Special	160,781,659	172,321,070	154,383,951	158,030,732	333,102,729	312,414,683	(20,688,046)	(6.21%)
Total Funds	**$721,810,430**	**$896,204,525**	**$852,668,705**	**$861,439,301**	**$1,618,014,955**	**$1,714,108,006**	**$96,093,051**	**5.94%**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

Mission Statement: The Montana Office of Public Instruction provides vision, advocacy, support and leadership for schools and communities to ensure that all students meet today's challenges, and tomorrow's opportunities.

The Superintendent of Public Instruction is an elected official authorized by Article VI, Section 1, of the Montana Constitution. The Office of Public Instruction (OPI) distributes funding to school districts and provides services to Montana's school-age children and to teachers in approximately 427 school districts. The staff provides technical assistance in planning, implementing, and evaluating educational programs in such areas as teacher preparation, teacher

certification, school accreditation, school curriculum, school finance, and school law. The staff also administers a number of federally-funded programs and provides a variety of information services, including the information systems necessary to assess student achievement and the quality of Montana's elementary and secondary school system.

Agency Highlights

Office of Public Instruction
Major Budget Highlights

- The Governor proposes to increase this agency's budget by 5.9% when compared to the previous biennium.
- State level activities decreases by 9.6% due to adjustments made to federal authority to equal anticipated funding
- The executive proposes an increase in OPI's distribution to schools program of $276.7 million in state funds in the 2013 biennium when compared to base expenditures in FY 2010. The increase is $101.6 million when compared to the 2011 biennium.
    - The difference between the doubled base and biennial increases is due to the provision of one-time funding for the Otter Creek leases and from the federal government in FY 2010, both of which replaced general fund in that year only
- Of this amount, present law general fund spending would increase $269.7 million in the 2013 biennium. New proposals would reduce general fund spending by $87.4 million, and state special revenue account spending would increase by $94.4 million. The biennial present law increases in general fund spending from the doubled FY 2010 base are:
    - $29.2 million to replace spending that was supplied by federal American Reinvestment and Recovery Act (ARRA) funds in FY 2010
    - $169.3 million to replace spending that was supplied by the guarantee fund using coal bonus payments made by Arch Coal Co in FY 2010 (Otter Creek)
    - $26.2 million to bring general fund spending up to levels consistent with FY 2011 entitlements
    - $29.6 million to reflect an inflationary increase in entitlements equivalent to 1.9% in FY 2012 and 1.5% in FY 2013
    - $10.0 million for the at-risk payment
    - $3.0 million to maintain special education spending
    - $2.4 million for additional spending on HB 124 block grants, transportation, and other general fund spending
- The executive budget also increases federal spending by $19.1 million primarily in school foods, Title 1, and special education. This is offset by a $29.2 million reduction in federal ARRA funds
- The executive budget contains two new proposals that switch funding for K-12 programs from the general fund to state special revenue accounts, one proposal to increase the quality educator payment by inflation, and one proposal to increase special education by inflation. These proposals are:
    - Remove $17.2 million in school facility reimbursements from the general fund and pay for this program from the school facility and technology fund using streambed rental monies
    - Remove $76.7 million in quality educator payments from the general fund and pay for this program from a new Teach Montana state special revenue account, which would receive oil and gas revenues

that have been diverted from school district coffers; this would also require GTB funding in the amount of $3.8 million for school districts that lose oil and gas revenues
- Increase the quality educator payment by inflation in FY 2013 for an additional cost to the Teach Montana account of $0.6 million
- Increase special education for the biennium by $2.7 million to reflect inflation

Legislative Action Issues

- Major LFD Issues
  - The executive underestimates K-12 general fund costs for the 2013 biennium by $14.0 million. Of this amount, new cost data shows $7.5 million is due to higher than predicted costs to pay for spending consistent with FY2011 entitlement levels. The remaining increase in general fund cost, $6.5 million, is the result of lower revenue estimates for the guarantee account as chosen by the Revenue and Transportation Interim Committee.
  - The executive proposes to use the school facility and technology account to pay for school facility reimbursements instead of the general fund. The revenue in the school facility and technology account during the 2013 biennium will depend on the riverbed rents paid by Avista and PPL. The PPL portion of these payments is in litigation at the US Supreme Court and it is unknown when the case will be resolved. If PPL wins the case, these revenues will be unavailable to pay for school facility reimbursements.
  - The executive proposes to create a new Teach Montana state special account to pay for the quality educator payment, an amount of approximately $38.0 million per year, and pay for this payment by diverting 90% of oil and natural gas revenues currently distributed to school districts in 32 counties. This action is contingent on passage of LC 360. In the latest year in which data is available, school districts received $33.6 million in oil and gas revenues, not enough to pay for one year's quality educator payment.
  - The executive improperly increases the special education appropriation by the attendant GTB increase which is properly BASE Aid, in both its present law adjustment and new proposal for special education.
  - The MT Digital Academy is required to provide a report to the legislature regarding its first biennia of operations.
- Interim Committee Recommendations
  - The Legislative Finance Committee recommends that the budget starting point be the adjusted base minus 5%

gency Discussion

oals and Objectives:

tate law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to stablish appropriations policy. As part of its appropriations deliberations the legislature may wish to review the llowing:

- Goals, objectives and year-to-date outcomes from the 2011 biennium
- Critical agency goals, objectives, and anticipated outcomes and their correlation to the executive's budget request for the 2013 biennium

2011 Biennium Goals

The following provides an update of the goals monitored by the LFC during the 2011 biennium:

- Improve teacher effectiveness and comply with Elementary and Secondary Education Act (ESEA) requirements to address inequities in the distribution of highly qualified teachers
  - The agency identified areas of critical teacher shortage, determining student loan assistance payments to eligible teachers and facilitating payments to those teachers. The program continues to address difficult to fill positions through the annual data collection process.
- Establish a longitudinal data system for the P-20 education system in Montana
  - This goal included application to the US Department of Education for funding support that was subsequently not awarded. The agency utilized grant funds from the Montana Student Assistance Foundation to contract with the National Student Clearinghouse to provide a student tracking system to the agency, the Commissioner of Higher Education, and accredited high schools. This will allow the state to determine the percentage of high school graduates who enroll in post secondary education.
- Improve academic content standards and student academic achievement standards
  - The agency received approval for revised standards for mathematics and communication arts from the Board of Public Education during the 2011 biennium. The agency continues to participate in the Common Core State Standards Initiative – a state-led process to develop and implement common English-language arts and math standards.
- Enhance the quality of academic assessments
  - The agency provided professional development activities on the use of test results, conducted pilot testing of four online writing assessment programs to determine potential utilization, and submitted evident for CRT testing approval in science to the US Department of Education. The agency is also participating as a governing state in the SMARTER Balance Assessment Consortium, a group of 32 states awarded funds to establish a comprehensive assessment system to produce data that can be used to gauge the effectiveness of instruction.
- Develop valid and reliable assessments for children with disabilities and limited English proficiency
  - The Office of Public Instruction has received three grant awards to study test designs for a statewide Criterion-Referenced Test (CRT) based on modified achievement standards. These grants are collaborations with other states, universities, and testing and research entities. Montana is the lead state in these collaborations. Activities include analysis of the appropriateness and effectiveness of accommodations for students with disabilities and provision of professional development on how to use such accommodations.
- Support struggling schools
  - The agency received a $9.8 million School Improvement Grant to provide technical assistance and resources to four school systems that have been identified as Persistently Lowest-Achieving Schools utilizing the federal formula. The agency hired personnel to manage this grant and has also hired instructional coaches, school board coaches, community liaisons, transformation leaders, and a community youth coordinator to work in the school communities of Frazer, Lame Deer, Lodge Grass and Pryor.

2013 Biennium Goals

During the interim the LFC met with the agency to select critical goals and performance measurements for the legislature to consider during the appropriation process. The LFC requested that the shared policy goals be considered through the appropriations process, they are:

- Prepare students with the knowledge and skills necessary for success in the 21st century global society
- Improve teaching and student learning by promoting data driven policy decisions and increain g access to educational information
- Improve student achievement in struggling schools
- Increase public awareness of and engagement in the K-12 educational system recognizing the roles and responsibilities of the state and local education agencies and the legislature

Agency Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- **Labor Market Experience** – The permanent positions located in Helena have typically had 60-70% of applicants meeting minimum qualifications. Overall, the agency has been successful in filling the positions after listing the vacancy the first time. However, the agency has had difficulty attracting qualified applicants for positions in information technology, compliance monitors, and instructional coordinators. Vacancies in these positions have taken repeated attempts to fill. These positions have been advertised 3 and 4 times before being filled.

  Applicants reject job offers less than 10% of the time. Rejected offers were typically because they thought the pay was too low, their current employer counter offered and they accepted, or they decided relocation was cost prohibitive and declined.

  The agency has stopped advertising in newspapers. Instead, it relies on the state employment website and the OPI website for listing vacancies and has relied on the applicant pools generated by depending on those websites. The agency has spent considerable time and resources figuring out new recruitment strategies for utilizing one time monies resulting from ARRA and the federal School Improvement Grant.
- **Pay Philosophy** - OPI has and will continue to advertise its typical vacancy at 93% of the 2006 market. Occasionally, hard-to-fill positions have been listed at a higher percentage after the initial offering failed to attract qualified applicants.
- **Obstacles** - OPI has experienced great difficulty in attracting and recruiting experienced educators for positions covered by the TRS retirement system.

Agency Overview

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following summarizes the plan submitted for this agency.

Total 5% Reduction Plan Identified by OPI, By Division
Included and Not Included in Executive Budget
2013 Biennium

Program/DP Number/Description	FTE	General Fund	% Of Total	State Special Revenue	% Of Total
State Level Activities					
Included in Executive Budget					
55140 5% General Fund Reduction	0.00	$229,756	0.4%	$0	0.0%
Subtotal Included in Executive Budget		$229,756	0.4%	$0	0.0%
Not Included in Executive Budget					
Remaining 5% reduction plan		$666,852	1.2%	$0	0.0%
State Special Revenue Reduction		0	0.0%	97,552	100.0%
Subtotal Not Included in Executive Budget		$666,852	1.2%	$97,552	100.0%
Total State Level Activities		$896,608	1.6%	$97,552	100.0%
Local Education Activities					
Included in Executive Budget					
Subtotal Included in Executive Budget		$0	0.0%	$0	0.0%
Not Included in Executive Budget					
Local Education Reduction*		$55,108,718	98.4%	$0	0.0%
Subtotal Not Included in Executive Budget		$55,108,718	98.4%	$0	0.0%
Total Local Education Activities		$55,108,718	98.4%	$0	0.0%
Total Reduction Plan					
Included in Executive Budget		$229,756	0.4%	$0	0.0%
Not Included in Executive Budget		55,775,570	99.6%	97,552	100.0%
Total Agency Reduction Plan		$56,005,326		$97,552	

The agency's 5% reduction plan includes a $994,160 reduction for state level activities and $55,108,718 of local support for the 2013 biennium. The executive included only $229,756 of this plan in the budget request. If the entire 5% plan was adopted, the executive request would change from a budget increase of 5.94% to an increase of 2.48%.

The agency's plan states that the reduction to K-12 BASE Aid would require a statutory change to reduce some combination of the basic and per-ANB entitlements, the quality educator payment, the at-risk student payment, the Indian Education for all payment and the American Indian achievement gap payment. If such changes were made, school districts would respond by reducing educational services to students and families, seek voter approval to increase local property tax levies and/or use non levy revenue to replace the state funds.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding
2013 Biennium Budget

Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
06 State Level Activities	$ 20,602,079	$ 685,195	$ 29,963,337	$ 51,250,611	2.99%
09 Local Education Activities	1,284,462,654	95,943,395	282,451,346	1,662,857,395	97.01%
Grand Total	$ 1,305,064,733	$ 96,628,590	$ 312,414,683	$ 1,714,108,006	100.00%

Statutory Appropriations

The following table shows the total statutory appropriations associated with this agency. Because statutory appropriations do not require reauthorization each biennium, they do not appear in HB 2 and are not routinely examined by the

legislature. The table is provided so that the legislature can get a more complete picture of agency operations and associated policy.

As appropriate, LFD staff has segregated the statutory appropriations into two general categories: 1) those where the agency primarily acts in an administrative capacity and the appropriations consequently do not relate directly to agency operations; and 2) those that have a more direct bearing on the mission and operations of the agency.

Statutory Appropriations
Office of Public Instruction

Purpose	MCA #	Fund Source	Fiscal 2010	Fiscal 2012	Fiscal 2013
Local Government Distributions to Schools					
Guarantee Account revenues from School Trust Lands	82-11-161	SSR	$134,317,339	$46,931,454	$58,383,460
Timber for Technology	20-9-534	SSR	1,000,000	1,000,000	1,000,000
Total Statutory Appropriations			$135,317,339	$47,931,454	$59,383,460

The funding from the guarantee account is distributed to local school districts. All 95% of distributable interest and income from the common school trust is deposited into the account. The remaining 5% remains in the permanent trust. The guarantee account is used to pay direct state aid to local districts. If revenues from the common school trust increase, the amount of aid paid for by the general fund decreases.

LFD COMMENT

The revenues to the guarantee account in FY 2010 included a one-time-only payment of approximately $85.0 million for the leasing of Otter Creek coal tracks. The executive budget utilizes revenues for FY 2012 and FY 2013 higher than the amounts adopted by the Revenue and Transportation Interim Committee in November of 2011. See program 9 for further details and legislative options.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category

	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	560,053,258	560,053,258	1,120,106,516	85.83%	721,810,430	721,810,430	1,443,620,860	84.22%
Statewide PL Adjustments	14,833,830	14,839,085	29,672,915	2.27%	704,152	706,377	1,410,529	0.08%
Other PL Adjustments	118,296,480	122,004,719	240,301,199	18.41%	126,030,440	133,388,679	259,419,119	15.13%
New Proposals	(42,916,835)	(42,099,062)	(85,015,897)	(6.51%)	4,123,683	5,533,815	9,657,498	0.56%
Total Budget	**$650,266,733**	**$654,798,000**	**$1,305,064,733**		**$852,668,705**	**$861,439,301**	**$1,714,108,006**	

Supplemental Appropriations
The executive is seeking supplemental appropriations for FY 2011 for the following purposes:
- $300,000 for Pupil Transportation
- $330,000 for State Tuition Payments

Language and Statutory Authority
The executive recommends the following be included in HB 2.

"The office of public instruction may distribute funds from the appropriation for In-state Treatment to public school districts for the purpose of providing for educational costs of children with significant behavioral or physical needs."

"All revenue up to $1.1 million in the state traffic education account for distribution to schools under the provisions of 20-7-506 and 61-5-121 is appropriated as provided in Title 20, chapter 7, part 5."

"All appropriations for federal special revenue programs in state level activities and in local education activities and all general fund appropriations in local educational activities are biennial."

"Item 2a is contingent on passage of a bill by the 2011 legislature that increases the per-ANB entitlements and the basic entitlements by 1.90% in FY 2012 and by another 1.53% in FY 2013. If legislation is not passed that increases the per-ANB entitlements and the basic entitlements by 1.90% in FY 2012 and another 1.53% in FY 2013, then item 2a is reduced by $10,470,459 in FY 2012 and by $19,099,210 in FY 2013."

"Decision packages 950 and 951 are contingent on passage and approval of LC 360."

Executive Recommended Legislation
The executive has recommended passage of LC 360, which implements all the proposals in the executive budget that require legislation. LC 360:
- Provides inflationary increases to the basic and per-ANB entitlements and the quality educator payment
- Creates a Teach Montana account into which would be deposited oil and gas revenues and from which the quality educator payment would be appropriated
- Redistributes 90% of oil and gas revenues currently received by school districts and deposits them in the Teach Montana account
- Pays for school facility reimbursements out of the school facility and technology account
- Delays deposit of ongoing streambed rents into the school facility and technology account until after July 1, 2013 and continues their deposit in the guarantee fund in the interim
- Renames and moves the Montana virtual academy from the Montana University System to the Office of Public Instruction and changes the membership of the board
- Appropriates money for grants to high school districts for wind or solar energy projects
- Appropriates money to the Department of Revenue to implement the tax distribution changes in the act

Elected Official Proposals

As an elected official, the Superintendent of Public Instruction has the opportunity to request additional budget items. As of this writing, the LFD has been notified of one additional request. The request is summarized below.

DP – ACT plus Writing - The Superintendent requests $1,950,000 of state general fund monies for the 2013 biennium to assess the college readiness of grade 11 students using ACT Plus Writing. The ACT Plus Writing would provide an opportunity for all Montana grade 11 students to participate in a college admissions test based on College Readiness Benchmarks. This funding will also provide the opportunity for minority and middle and low income students in grade 11 to take the ACT Plus Writing test.

Agency Issues

Please see the program level for specific agency issues.

Program Budget Comparison

The following table summarizes the total executive budget for the program by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	165.86	165.86	165.86	165.86	165.86	165.86	0.00	0.00%
Personal Services	9,958,949	11,582,397	10,676,905	10,674,244	21,541,346	21,351,149	(190,197)	(0.88%)
Operating Expenses	13,722,264	20,443,953	14,928,594	14,947,190	34,166,217	29,875,784	(4,290,433)	(12.56%)
Equipment & Intangible Assets	11,839	50,426	11,839	11,839	62,265	23,678	(38,587)	(61.97%)
Local Assistance	0	974,052	0	0	974,052	0	(974,052)	(100.00%)
Grants	0	0	0	0	0	0	0	n/a
Total Costs	**$23,693,052**	**$33,050,828**	**$25,617,338**	**$25,633,273**	**$56,743,880**	**$51,250,611**	**($5,493,269)**	**(9.68%)**
General Fund	8,966,070	9,217,888	10,291,557	10,310,522	18,183,958	20,602,079	2,418,121	13.30%
State Special	225,513	229,051	342,503	342,692	454,564	685,195	230,631	50.74%
Federal Special	14,501,469	23,603,889	14,983,278	14,980,059	38,105,358	29,963,337	(8,142,021)	(21.37%)
Total Funds	**$23,693,052**	**$33,050,828**	**$25,617,338**	**$25,633,273**	**$56,743,880**	**$51,250,611**	**($5,493,269)**	**(9.68%)**

Program Description

The State Level Activities program includes the Office of the State Superintendent and ten divisions of the agency that work together to provide leadership and services to Montana public schools. Those divisions include:

- Office of the State Superintendent – Provides leadership to and supervision of Montana's K-12 system including 828 public schools, 141,807 students, and 15,077 licensed and professional staff, as well as the 165 full-time employees within the agency. The superintendent's duties are statutorily prescribed in Title 20, Section 3. The Assessment unit within the Office of the State Superintendent oversees the development, implementation, and analysis of statewide student testing.
- Accreditation Division - Responsible for reviewing and monitoring K-12 schools and the eight teacher education programs at Montana's postsecondary institutions for compliance with the Board of Public Education's accreditation standards and administrative rules.
- Career and Technical Education Division –Provides professional development, technical assistance, and program expertise to instructors and administrators for Adult Basic and Literacy Education (ABLE), Career and Technical Education (CTE), General Education Development (GED), and the Veteran's Education/State Approving Agency (SAA) program.
- Measurement and Accountability Division– Provides the coordination of non-fiscal data collections to ensure coordinated application of policy, appropriate interpretation of reporting requirements, comparability of data, and communication of data analysis to school districts, OPI management and staff, the legislature, and the public.
- Health Enhancement and Safety Division– Develops and supports school programs designed to prevent major health problems and health-risk behaviors among youth and to facilitate students achieving their maximum potential.
- Special Education Division- Responsible for assuring that children with disabilities receive a free and appropriate public education in the least restrictive environment. The division provides training, technical assistance for and monitors delivery of special education services provided by public schools and state-operated programs. The division is also responsible for managing the flow of state and federal dollars for special education programs.
- Indian Education Division– Responsible for implementing the Indian Education for All program and providing support to close the American Indian achievement gap.

- School Finance Division– Assists local school districts with all aspects of school and transportation funding.
- Educational Opportunity and Equity Division – Oversees the federal education programs including Title I, parts A through D and G addressing items such as basic school improvements, early intervention, and delinquency. The division also manages the Elementary and Secondary Education Act programs, including improving teacher quality.
- Centralized Services Division- Provides accounting, budgeting, payroll, accounts receivable, accounts payable, cash management, financial reporting, purchasing, mail, receptionist and word processing services to other OPI divisions. This division is also responsible for the distribution and fiscal monitoring of state and federal grant programs administered by the OPI to local education agencies.
- Information Technology Division- Responsible for the operation of the agency's computer network and systems and the development and maintenance of the OPI information systems, website, internet services, and electronic communications with school districts and the public. This division is also distributes surplus computer equipment from state agencies to Montana K-12 public schools at no cost to the schools.

Program Highlights

State Level Activities Major Budget Highlights
♦ While the table shows a reduction of 9.7% from the previous biennium, the decrease is because FY 2011 does not reflect a transfer of $8.1 million to Local Education Activities to distribute the School Improvement Grants to federally qualified schools ♦ General fund increases by 13.3% due to statewide present law adjustments and $2.4 million for the digital academy (formerly virtual academy), partially offset by personal services reductions ♦ State special revenue increases by 50% due to statewide present law adjustments and the potential for commodity assistance for the School Breakfast Program
Major LFD Issues
♦ The request for USDA food commodity support is dependent on federal legislation ♦ HB 659 of the 2009 Legislative Session requires a report to the 62nd Legislature on the operations of the Virtual Academy

Program Narrative

Goals and Objectives

2013 Biennium Goal

The Legislative Finance Committee recommends the legislature consider the K-12 shared policy goals as part of its decisions on the executive's budget requests for this program. Please see the unified budget for the shared policy goals.

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following summarizes the plan submitted for this program.

The 5% reduction plan submitted with the budget totaled $896,608 of general fund and $97,552 state special revenue for the biennium. The executive included $229,756 of the plan in DP 551400- 5% General Fund Reduction. This reduction includes funds for contracted services, printing, supplies, non-employee travel, and dues. The program did not address the impact of the reduction.

None of the remaining $666,852 of general fund or any of the state special revenue was included. If the legislature was to adopt the 5% plan as proposed, the program's budget would be reduced by an additional 1.35%. The impact of this further reduction would include elimination of 2.25 FTE that have not been identified and delays in training, educational materials, and grants for curriculum and professional development.

LFD ISSUE

Impacts Cannot be Determined

The impact of the 5% reduction plan cannot be determined by the agency's submission. The legislature may wish to discuss with the agency the actual impact, including identified positions for elimination, prior to addressing the rest of the program's budget.

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table
State Level Activities

Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000 Total General Fund	$ 8,966,070	37.8%	$ 10,291,557	40.2%	$ 10,310,522	40.2%
01100 General Fund	8,966,070	37.8%	10,291,557	40.2%	10,310,522	40.2%
02000 Total State Special Funds	225,513	1.0%	342,503	1.3%	342,692	1.3%
02001 School Lunch Program	86,958	0.4%	202,504	0.8%	202,335	0.8%
02402 Traffic & Safety Education	138,555	0.6%	139,999	0.5%	140,357	0.5%
03000 Total Federal Special Funds	14,501,469	61.2%	14,983,278	58.5%	14,980,059	58.4%
03002 Public Instruction	14,501,469	61.2%	14,983,278	58.5%	14,980,059	58.4%
Grand Total	$ 23,693,052	100.0%	$ 25,617,338	100.0%	$ 25,633,273	100.0%

General fund accounts for 40% of the program's budget and it is utilized for administrative costs in most programs.

State special revenue comes from the revenues paid to the department for shipping, handling, and other related costs to the food commodities program. Traffic and safety revenues are from a percentage of driver's license fees.

Federal revenue is the portion of federal grants received by the department for allowable administrative costs. These grants include curriculum assistance, special education, Elementary and Secondary Education Act (ESEA) administration, and secondary vocational education administration.

Program Funding by Functional Units

The State Level Activities program provides funding for the administration of the Superintendent's Office and the nine divisions of the department. The table on the following page compares the 2013 biennium executive request to the FY 2010 base, by division. The increases for most divisions are dominated by present law adjustments, with the transfer of the Montana Digital Academy from the Montana University System causing most of the increase in the Superintendent's Office.

	FY 2010 - Actuals					FY 2012 - Requested					FY 2013 - Requested				
Agency Function	GF	SSR	Fed	Total	%	GF	SSR	Fed	Total	%	GF	SSR	Fed	Total	%
Superintendent's Office	$2,058,834	($1,133)	$3,544,732	$5,602,433	24%	$3,345,719	$0	$3,815,876	$7,161,595	28%	$3,345,104	$0	$3,814,015	$7,159,119	28%
Legal Services	515,528	0	0	515,528	2%	518,274	0	0	518,274	2%	517,544	0	0	517,544	2%
Measurement & Accountability	495,036	0	172,571	667,607	3%	528,456	0	188,905	717,361	3%	528,810	0	187,851	716,661	3%
State Distribution to Schools	883,812	0	0	883,812	4%	855,724	0	0	855,724	3%	857,660	0	0	857,660	3%
Information Technology	1,121,887	0	233,898	1,355,785	6%	1,164,264	0	354,654	1,518,918	6%	1,164,342	0	353,516	1,517,858	6%
Indian Education	1,434,561	0	107,425	1,541,986	7%	1,445,699	0	177,353	1,623,052	6%	1,446,074	0	176,506	1,622,580	6%
Curriculum Services	353,927	0	580,309	934,236	4%	266,397	0	657,786	924,183	4%	268,920	0	655,594	924,514	4%
Accreditation	1,183,503	0	608,735	1,792,238	8%	1,199,006	0	685,457	1,884,463	7%	1,199,409	0	685,329	1,884,738	7%
Health Enhancement & Safety	93,396	226,646	1,302,584	1,622,626	7%	92,393	342,503	1,390,724	1,825,620	7%	92,178	342,692	1,392,069	1,826,939	7%
Educational Opportunity	0	0	3,617,322	3,617,322	15%	0	0	3,509,120	3,509,120	14%	0	0	3,508,826	3,508,826	14%
Special Education	476,466	0	3,545,201	4,021,667	17%	515,456	0	3,391,005	3,906,461	15%	530,098	0	3,393,316	3,923,414	15%
Career Technical & Adult Ed	349,120	0	788,692	1,137,812	5%	360,169	0	812,398	1,172,567	5%	360,383	0	813,037	1,173,420	5%
	$8,966,070	$225,513	$14,501,469	$23,693,052	100%	$10,291,557	$342,503	$14,983,278	$25,617,338	100%	$10,310,522	$342,692	$14,980,059	$25,633,273	100%
	37.8%	1.0%	61.2%			40.2%	1.3%	58.5%			40.2%	1.3%	58.4%		

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	8,966,070	8,966,070	17,932,140	87.04%	23,693,052	23,693,052	47,386,104	92.46%
Statewide PL Adjustments	220,526	225,778	446,304	2.17%	704,325	706,547	1,410,872	2.75%
Other PL Adjustments	(70,639)	(56,926)	(127,565)	(0.62%)	(70,639)	(56,926)	(127,565)	(0.25%)
New Proposals	1,175,600	1,175,600	2,351,200	11.41%	1,290,600	1,290,600	2,581,200	5.04%
Total Budget	**$10,291,557**	**$10,310,522**	**$20,602,079**		**$25,617,338**	**$25,633,273**	**$51,250,611**	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					1,157,285					1,154,528
Vacancy Savings					(439,329)					(439,233)
Inflation/Deflation					(10,187)					(5,684)
Fixed Costs					(3,444)					(3,064)
Total Statewide Present Law Adjustments		**$220,526**	**$1,990**	**$481,809**	**$704,325**		**$225,778**	**$2,179**	**$478,590**	**$706,547**
DP 606 - Audiological Services	0.00	26,239	0	0	26,239	0.00	39,952	0	0	39,952
DP 607 - National Board Certified Teachers-OTO (Restricted)	0.00	18,000	0	0	18,000	0.00	18,000	0	0	18,000
DP 55140 - 5% General Fund Reduction	0.00	(114,878)	0	0	(114,878)	0.00	(114,878)	0	0	(114,878)
Total Other Present Law Adjustments	**0.00**	**($70,639)**	**$0**	**$0**	**($70,639)**	**0.00**	**($56,926)**	**$0**	**$0**	**($56,926)**
Grand Total All Present Law Adjustments	**0.00**	**$149,887**	**$1,990**	**$481,809**	**$633,686**	**0.00**	**$168,852**	**$2,179**	**$478,590**	**$649,621**

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- **Pay Plan Exceptions** – The program did not report any pay plan exceptions.
- **Program Specific Obstacles** - OPI has experienced great difficulty in attracting and recruiting experienced educators for positions covered by the Teachers Retirement System (TRS).
- **Vacancy** - Turnover trends have been mostly associated with IT, Instructional Coordinators, and Compliance Monitors. One half time admin support position has also turned over repeatedly. The Instructional Coordinators are especially problematic as they often leave schools to work for OPI and then return back to schools. OPI has experienced great difficulty in attracting and recruiting experienced educators for positions covered by the TRS retirement system. Vacancies have added to increased overtime, projects and tasks delayed, and increased workload for other staff.
- **Legislatively Applied Vacancy Savings** – OPI used carry forward funds and shifted funding from other operational areas.
- **Pay/Position Changes** - OPI has not approved any pay increases in accordance with the Governor's office

directives on pay adjustments. OPI has not adjusted its pay plan rules or created special pay plan rules.

- **Retirements** - OPI has 19 employees who are eligible for full retirement in the 2013 biennium. Using a typical example of an employee retiring with full retirement benefits under TRS or PERS, as OPI has employees covered by both retirement systems, the typical termination cost would be $35,000. In turn, the total liability would be $665,000.

DP 606 - Audiological Services - The executive is requesting increased authority for the Hearing Conservation Program (HCP) contract to provide funding at $457,096 for FY 2012 and $470,809 in FY 2013. The Individuals with Disabilities Education Act requires public schools to have an effective child-find system in place for children through age 21 who are suspected of having disabilities.

DP 607 - National Board Certified Teachers-OTO (Restricted) - The executive requests authority to pay up to ten one-time stipends of $3,000 per teacher per year to Montana teachers who achieve certification from the National Board for Professional Teaching Standards. This authority would raise the base budget to $30,000 for these payments.

DP 55140 - 5% General Fund Reduction - The executive requests an operating budget reduction of $114,878 in each year of the 2013 biennium as part of the compliance for 17-7-140, MCA, reductions. Consulting and professional services, printing, reference books and materials, minor equipment, non-employee travel, dues, and education grants are all part of the reductions.

LFD COMMENT

The Governor made reductions to agencies' 2011 biennium general fund budgets in accordance with 17-7-140, MCA. A portion of the reduction was effective in FY 2011 and therefore is not reflected in the base. This reduction is to continue the original reduction in the 2013 biennium.

LFD COMMENT

Technical Adjustment Needed

The agency request initially included federal authority for the longitudinal data study. An oversight in budget development left this funding out of the executive request.

DP 609 – Federal Grant Award Adjustments – The executive is requesting federal authority in FY 2012 of $3.4 million and $1.2 million in FY 2013 for the State Longitudinal Data System project. Funds have already been awarded to the department. This project will develop P-20 longitudinal data systems to capture student data from preschool to high school, college and career.

New Proposals

The "New Proposals" table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals	Fiscal 2012						Fiscal 2013				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 605 - USDA Foods - Commodities										
06	0.00	0	115,000	0	115,000	0.00	0	115,000	0	115,000
DP 610 - Montana Digital Academy										
06	0.00	1,168,000	0	0	1,168,000	0.00	1,168,000	0	0	1,168,000
DP 650 - National Clearinghouse (Restricted)										
06	0.00	7,600	0	0	7,600	0.00	7,600	0	0	7,600
Total	**0.00**	**$1,175,600**	**$115,000**	**$0**	**$1,290,600**	**0.00**	**$1,175,600**	**$115,000**	**$0**	**$1,290,600**

DP 605 - USDA Foods - Commodities - This request is to increase state special spending authority for additional costs of storage and shipping for USDA commodities provided to Montana school districts for breakfast programs. School districts receiving the USDA foods will reimburse OPI for the cost of warehousing and shipping the foods.

LFD ISSUE

Congressional Action Required

The executive is requesting authority for storage and shipping of USDA commodities for school breakfast programs. Currently, commodity assistance is only provided for school lunch programs. Congressional action is required to include breakfast programs.

Recently introduced legislation, HR 4638: Healthy Start Act, sponsored by Representative Stephanie Herseth Sandlin (SD), proposes to amend the Richard B. Russell National School Lunch Act to direct the Secretary of Agriculture to deliver commodity assistance to states for their school breakfast programs. The legislation also includes a formula for determining the amount of such to be provided to each state for its school breakfast program.

School districts receiving commodities reimburse OPI for handling costs. Revenues to support this appropriation will only be realized if Congress passes HR 4638. The legislature may wish to condition the appropriation as restricted to school breakfast programs to ensure the authority is available if and when Congress passes HR 4638.

DP 610 - Montana Digital Academy - This request is for a biennial general fund appropriation of $2,336,000 to support ongoing operations of the Montana Digital Academy.

LFD ISSUE

This decision package reflects two things:
Transfer of the academy from the Montana University System, along with the continuing funding of $2.0 million that had been provided on a one-time-only basis in HB 645 (the federal stimulus bill); and an increase of $366,000.

Report to Legislature Required

The Montana Digital Academy (MTDA) (formerly the Virtual Academy) provides courses for students across the State of Montana through the public school districts. The MTDA program is designed to help students meet college admissions requirements, make up missed or failed classes, resolve scheduling conflicts, and take advanced coursework.

The MTDA was authorized in the passage and approval of HB 459 and funded in HB 645 with $2.0 million general fund freed-up due to the provision of American Recovery and Reinvestment Act funds in the 2009 legislative session. HB 459 included the following reporting requirement:

The governing board shall provide the 62nd legislature with a report that details:

- how the line item funding in House Bill No. 645 cited was spent; and
- future funding requirements and recommendations, instructor standards, curriculum development issues, and evaluation of the software for implementing a seamless educational distance learning continuum in the state of Montana.

The legislature may wish review and discuss this report prior to proceeding with funding decisions. In addition, this report could provide the legislature with information needed to establish performance measures for the upcoming biennium.

LFD ISSUE CONT.

Authority Increases by 16.8%

The 2011 biennial one-time-only appropriation for this program was $2.0 million. The executive is requesting to increase the authority by 16.8%.

According to the program, the increased costs are related directly to the demand for services. At the inception of the program, MTDA anticipated serving 1,500 to 2,000 students over a period of one year; instead the program served 2,000 students in a semester. If the funding was to support enrollment only, the increase would fund an additional 672 students per year.

The legislature may wish to view this increase in conjunction with the report required in HB 659, as described above.

DP 650 - National Clearinghouse (Restricted) - The executive requests authority to provide funds for data information access to the National Clearinghouse for student records. This will assist OPI and the Office of the Commissioner of Higher Education to better track student performance, identify areas with student remediation needs, and more accurately track student dropout/transfer rates.

LFD COMMENT

This decision package supports the K-20 shared policy goal: Utilize K-20 data to improve student access and achievement. If the legislature chooses to continue the shared policy goal project, progress toward this goal will be tracked through the interim.

Proprietary Program Description

The State Level Activities program provides the following functions funded with proprietary funds. These programs are described separately along with a discussion of program expenses, revenues, and rates being requested to finance the program:

- Indirect Cost Pool
- Advanced Driver Education Program

Indirect Cost Pool (06512)

Proprietary Proposed Budget

The 2013 Biennium Report on internal services and enterprise funds for the indirect cost pool shows the financial information for the fund from FY 2010 and FY 2013. The report is provided as submitted by the executive but LFD has edited and reconfigured the figure for clarity.

2013 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Program Name
06512	Indirect Cost Pool	3501	State Level Activities

	Actual FY10	Budgeted FY11	Budgeted FY12	Budgeted FY13
Operating Revenues:				
Nonfederal indirect cost recoveries	1,208,401	1,208,401	1,242,534	1,237,048
Federal Indirect Cost Recoveries	1,368,475	1,568,475	1,401,155	1,394,969
Other Operating Revenues	8,150	8,150	8,150	8,150
Total Operating Revenue	2,585,026	2,785,026	2,651,839	2,640,167
Operating Expenses:				
Personal Services	1,431,144	1,302,662	1,329,788	1,330,037
Termination costs for HB2 FTE (FY08-FY10 average-$178,900)	278,580	180,000	200,000	200,000
Other Operating Expenses	834,985	957,724	886,431	802,344
Other Post Employment Expense	71,339	71,000	71,000	71,000
Total Operating Expenses	2,616,048	2,511,386	2,487,219	2,403,381
Operating Income (Loss)	**(31,022)**	**273,640**	**164,620**	**236,786**
Total Net Assets- July 1 - As Restated	(80,342)	(111,364)	162,276	326,896
Total Net Assets - July 1 - As Restated	(80,342)	(111,364)	162,276	326,896
Net Assets- June 30	**(111,364)**	**162,276**	**326,896**	**563,682**
60 days of expenses (Total Operating Expenses divided by 6)	436,008	418,564	414,537	400,564

Fee/Rate Information

	Actual FY10	Budgeted FY11	Budgeted FY12	Budgeted FY13
Unrestricted Rate	24.0%	17.5%	17.5%	17.5%
Restricted Rate	16.3%	17.0%	17.0%	17.0%

OPI's indirect cost rate is negotiated with the U.S Department of Education every three-years in accordance with federal regulations published in OMB Circular A-87, U.S. Department of Education General Administrative Requirements, and section 17-3-111, MCA. The restricted rate approved by the U.S. Department of Education for FY2011-FY2013 is 17%. The approved unrestricted rate is 17.5%. The restricted rate is applied to all general fund programs and to federal programs with "supplement not supplant" requirements.

Proprietary Program Description

OPI's internal service fund is used to pool internal and state wide central service type costs that are charged back to all of the department's state and federally funded programs using a pre-approved indirect cost rate.

Proprietary Program Narrative

Revenue

Indirect cost pool revenues are a function of the amount of expenditures recorded in the State Level Activities Program. Revenues are generated monthly by applying an approved indirect cost rate to the prior month's direct personal services and operating expenditures in both state and federally funded programs. The federally approved rate for FY 2011 through FY 2013 is 17%.

Expense

The indirect cost pool covers the expenses incurred by the 22.5 FTE, who provide payroll, personnel, accounting, budgeting, data management, financial reporting, and purchasing and mail services to the rest of the agency. The rate also covers fess charged for services provided by other departments, including but not limited to warrant writing, worker's compensation fees, audit fees, rent, and grounds maintenance. The pool also covers termination payouts for all staff, except the Superintendent and their personal staff.

Proprietary Rates

OPI negotiates a three year "predetermined rate" with the Department of Education. The rate is calculated in accordance with federal regulations and section 17-3-111(1), MCA. The approved rate for FY 2010 through FY 2013 is 17%.

Advanced Driver Education Program (06067)

Proprietary Proposed Budget

The 2013 Biennium Report on Internal Services and Enterprise Funds for the advanced driver education program shows the financial information for the fund from FY 2010 and FY 2013. The report is provided as submitted by the executive but LFD has edited and reconfigured the figure for clarity.

2013 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Program Name
06067	Advanced Drivers Education	3501	State Level Activities

	Actual FY10	Budgeted FY11	Budgeted FY12	Budgeted FY13
Operating Revenues:				
Fee revenue				
From Fee A - Full Day Workshop	160,000	160,000	160,000	160,000
Half Day Refresher Workshop				
From Fee B - Daily Track Rentals, Exclusive				
From Fee C - Periodic or Extended Track Rental, Non-Exclu.	-	-	-	-
From Fee D - Custom Training/Workshop	-	-	-	-
Misc. Income	829	500	500	500
	-	-	-	-
Total Operating Revenue	160,829	160,500	160,500	160,500
Operating Expenses:				
Personal Services	55,619	81,674	80,675	80,714
Other Operating Expenses	65,280	65,500	75,000	85,000
Total Operating Expenses	120,900	147,174	155,675	165,714
Operating Income (Loss)	**39,929**	**13,326**	**4,826**	**(5,214)**
Total Net Assets- July 1 - As Restated	(4,330)	35,599	48,925	53,750
Net Assets- June 30	**35,599**	**48,925**	**53,750**	**48,636**
60 days of expenses				
(Total Operating Expenses divided by 6)	20,150	24,529	25,946	27,619

Fee/Rate Information

		Budgeted FY 10	Budgeted FY 11	Budgeted FY 12	Budgeted FY 13
Fee Group A	Rate 1 (per unit) Full-Day Workshop	260-320	260-320	260-320	260-320
	Rate 2 (per unit) Half-Day Workshop	155-190	155-190	155-190	155-190
Fee Group B	Rate 4 (per unit) Daily Track Rental - Gov.	150-200	150-200	150-200	150-200
	Rate 5 (per unit) Daily/Yearly High Schools	40/600	40/600	40/600	40/600
	Rate 6 (per unit) Daily Track Rental Non-Profit	330-400	330-400	330-400	330-400
	Rate 7 (per unit) Daily Private for Profit	2000-2750	2000-2750	2000-2750	2000-2750
Fee Group C	Rate 8 (per unit) Periodic/Extended Non-Exclusive - Gov	Negotiated	Negotiated	Negotiated	Negotiated
	Rate 9 (per unit) Periodic/Extended Non-Exclusive - Non-Profit	Negotiated	Negotiated	Negotiated	Negotiated
Fee Group D	Rate 10 (per unit) Custom Full-Day Workshop	Negotiated	Negotiated	Negotiated	Negotiated
	Rate 11 (per unit) Custom, Other training configurations	Negotiated	Negotiated	Negotiated	Negotiated
Misc. Income	This includes fees collected for use of cones, equipment of other misc. assets	Negotiated	Negotiated	Negotiated	Negotiated

Group A represents the workshops the Office of Public Instruction offers for driver improvement and advanced driver education. It is typically a one-day workshop or a half-day refresher course. It involves a driving track, four to five instructors, and 10-12 vehicles

Group B are the fees other users of the tract pay for exclusive use of the track. Rate 5 for High Schools involves use of the track after hours or on dates not scheduled for other uses

Group C are fees charged to groups that use the track on a non-exclusive basis that involves periodic or extended use, such as research projects that can accommodate other users, or are confined to dates that are not typically used A fee that fairly represents the loss of track time from other uses, accounts for value added benefits to the program/facility, and takes into account wear and tear on facility will be negotiated.

Change of Lead Agency Status. As of February 28, 2008, Western Transportation Institute became the lead agency at the Lewistown Montana driving facility and will now arrange for and collect use fees from other users OPI now subleases the tract from WTI and will rarely see track revenue from other users based upon this change OPI will occassionally realize misc income from other uses of cones, signs, and other misc assets

Proprietary Program Description

The Advanced Driver Education program (also known as Montana DR.I.V.E.) - This is a seasonal hands-on behind-the-wheel crash avoidance program operated by the Health Enhancement and Safety Division of the Office of Public Instruction at their training facility in Lewistown. The one-day and half-day refresher courses provide training to school bus drivers, driver education teachers, state employees, ambulance drivers, firefighters, road crews and others who drive as a part of their employment. In operation since 1979, this program offers its services to employees of government services, fleet managers and to the general public.

Proprietary Program Narrative

Revenue

Revenues are generated from workshop fees collected from program users. (Authority Title 20 MCA) Typically the program serves 500-600 participants a season. The current fee is $290 for a full-day workshop per person.

Expenses

Cost drivers for fees include instructor expenses (includes salaries, travel and per diem), vehicle maintenance and operating expenses (fuel and repairs), classroom and track supplies, track lease, program advertising, and administration (planning, scheduling, registrations, advertising, professional development of staff, support services, etc.). Need for improvements to the facility are pending.

Proprietary Rates

Workshop rates are fixed rates evaluated against workshop personnel expenses, operating expenses, and depreciated vehicle costs on a seasonal basis to ensure workshop operating expenses are covered. Inflationary influences are anticipated as best as possible to ensure that inflation does not leave the program in a deficit situation. All attempts are made to keep workshop fees low since the potential customers such as bus drivers, volunteer firemen, and ambulance drivers have small training budgets.

Program Budget Comparison

The following table summarizes the total executive budget for the program by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
Operating Expenses	1,083,836	1,151,059	1,107,577	1,120,102	2,234,895	2,227,679	(7,216)	(0.32%)
Local Assistance	564,594,849	712,513,477	685,768,117	690,860,253	1,277,108,326	1,376,628,370	99,520,044	7.79%
Grants	132,029,203	147,998,651	139,766,183	143,416,183	280,027,854	283,182,366	3,154,512	1.13%
Transfers	409,490	1,490,510	409,490	409,490	1,900,000	818,980	(1,081,020)	(56.90%)
Total Costs	**$698,117,378**	**$863,153,697**	**$827,051,367**	**$835,806,028**	**$1,561,271,075**	**$1,662,857,395**	**$101,586,320**	**6.51%**
General Fund	551,087,188	713,686,516	639,975,176	644,487,478	1,264,773,704	1,284,462,654	19,688,950	1.56%
State Special	750,000	750,000	47,675,518	48,267,877	1,500,000	95,943,395	94,443,395	6,296.23%
Federal Special	146,280,190	148,717,181	139,400,673	143,050,673	294,997,371	282,451,346	(12,546,025)	(4.25%)
Total Funds	**$698,117,378**	**$863,153,697**	**$827,051,367**	**$835,806,028**	**$1,561,271,075**	**$1,662,857,395**	**$101,586,320**	**6.51%**

Program Description

The Local Education Activities program is used by OPI to distribute various state and federal funds to local education agencies.

Program Highlights

Office of Public Instruction
Major Budget Highlights

The executive proposes an increase in OPI's distribution to schools program of $276.7 million in state funds in the 2013 biennium when compared to base expenditures in FY 2010. The increase is $101.6 million when compared to the 2011 biennium.

- The difference between the comparison to doubled base and the previous biennium is due to the one-time receipt of Otter Creek coal lease and federal funding, both of which replaced general fund in FY 2010, only
- Of the biennial difference of $276.7 million, present law general fund spending would increase $269.7 million in the 2013 biennium. New proposals would reduce general fund spending by $87.4 million, and state special revenue account spending would increase by $94.4 million. The biennial present law increases in general fund spending from the doubled FY 2010 base are:
  - $29.2 million to replace spending that was supplied by federal American Reinvestment and Recovery Act (ARRA) funds in FY 2010
  - $169.3 million to replace spending that was supplied by the guarantee fund using coal bonus payments made by Arch Coal Co in FY 2010 (Otter Creek)
  - $26.2 million to bring general fund spending up to levels consistent with FY 2011 entitlements
  - $29.6 million to reflect an inflationary increase in entitlements equivalent to 1.90% in FY 2012 and 1.53% in FY 2013
  - $10.0 million for the at-risk payment
  - $3.0 million to maintain special education spending
  - $2.4 million for additional spending on HB 124 block grants, transportation, and other general fund spending

- The executive budget also increases federal spending by $19.1 million primarily in school foods, Title 1, and special education. This is offset by a $29.2 million reduction in federal ARRA funds.
- The executive budget contains two new proposals which switch funding for K-12 programs from the general fund to state special revenue accounts, one proposal to increase the quality educator payment by inflation, and one proposal to increase special education by inflation. These proposals are:
  - Remove $17.2 million in school facility reimbursements from the general fund, pay for this program from the school facility and technology fund, using streambed rental monies
  - Remove $76.7 million in quality educator payments from the general fund and pay for this program from a new Teach Montana state special revenue account, which would receive oil and gas revenues that have been diverted from school district coffers. This would also require GTB funding in the amount of $3.8 million for school districts that lose oil and gas revenues
  - Increase the quality educator payment by inflation in FY 2013 for an additional cost to the Teach Montana account of $0.6 million
  - Increase special education for the biennium by $2.7 million to reflect inflation

Major LFD Issues

- The executive underestimates K-12 general fund costs for the 2013 biennium by $14.9 million. Of this amount, new cost data show $8.4 million is due to higher than predicted costs to pay for spending consistent with 2011 entitlement levels. The remaining increase in general fund cost, $6.5 million, is the result of lower revenue estimates for the guarantee account as chosen by the Revenue and Transportation Interim Committee.
- The executive proposes to use the school facility and technology account to pay for school facility reimbursements instead of the general fund. The revenue in the school facility and technology account during the 2013 biennium will depend on the riverbed rents paid by Avista and PPL. The PPL portion of these payments is in litigation at the US Supreme Court and it is unknown when the case will be resolved. If PPL wins the case, these revenues will be unavailable to pay for school facility reimbursements.
- The executive proposes to create a new Teach Montana state special account to pay for the quality educator payment, an amount of approximately $38 million per year, and pay for this payment by diverting 90 percent of oil and natural gas revenues currently distributed to school districts in 32 counties. This action is contingent on passage of LC 360. In the latest year in which data is available, school districts received $33.6 million in oil and gas revenues, not enough to pay for one year's quality educator payment.
- The executive improperly increases the special education appropriation by the attendant GTB increase which is properly BASE Aid, in both its present law adjustment and new proposal for special education.

Program Narrative

5% Reduction Plan

The agency's plan states that the reduction to K-12 BASE Aid require a statutory change to reduce some combination of the basic and per-ANB entitlements, the quality educator payment, the at-risk student payment, the Indian Education for all payment and the American Indian achievement gap payment. If such changes were made, school districts would respond by reducing educational services to students and families, seek voter approval to increase local property tax levies and/or use non levy revenue to replace the state funds. To do this, legislation would be necessary.

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Local Education Activities							
Program Funding		Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000	Total General Fund	$ 551,087,188	78.9%	$ 639,975,176	77.4%	$ 644,487,478	77.1%
	01100 General Fund	551,087,188	78.9%	639,975,176	77.4%	644,487,478	77.1%
02000	Total State Special Funds	750,000	0.1%	47,675,518	5.8%	48,267,877	5.8%
	02218 School Facility Imprvmnt Acct	-	-	8,586,000	1.0%	8,586,000	1.0%
	02402 Traffic & Safety Education	750,000	0.1%	750,000	0.1%	750,000	0.1%
	02584 Teach Montana	-	-	38,339,518	4.6%	38,931,877	4.7%
03000	Total Federal Special Funds	146,280,190	21.0%	139,400,673	16.9%	143,050,673	17.1%
	03170 Grant Clearance Discretionary	131,666,713	18.9%	139,400,673	16.9%	143,050,673	17.1%
	03488 Fed Stabilization Fund - Education	14,613,477	2.1%	-	-	-	-
Grand	Total	$ 698,117,378	100.0%	$ 827,051,367	100.0%	$ 835,806,028	100.0%

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	551,087,188	551,087,188	1,102,174,376	85.81%	698,117,378	698,117,378	1,396,234,756	83.97%
Statewide PL Adjustments	14,613,304	14,613,307	29,226,611	2.28%	(173)	(170)	(343)	0.00%
Other PL Adjustments	118,367,119	122,061,645	240,428,764	18.72%	126,101,079	133,445,605	259,546,684	15.61%
New Proposals	(44,092,435)	(43,274,662)	(87,367,097)	(6.80%)	2,833,083	4,243,215	7,076,298	0.43%
Total Budget	**$639,975,176**	**$644,487,478**	**$1,284,462,654**		**$827,051,367**	**$835,806,028**	**$1,662,857,395**	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Inflation/Deflation					(173)					(170)
Total Statewide Present Law Adjustments		**$14,613,304**	**$0**	**($14,613,477)**	**($173)**		**$14,613,307**	**$0**	**($14,613,477)**	**($170)**
DP 901 - K-12 BASE Aid - Adjust to FY 2011 Funding Level	0.00	13,085,331	0	0	13,085,331	0.00	13,085,331	0	0	13,085,331
DP 902 - At-Risk Payment Restored (Restricted)	0.00	5,000,000	0	0	5,000,000	0.00	5,000,000	0	0	5,000,000
DP 903 - K-12 BASE Aid-Statutory Inflation Incrs (Rst/Bien)	0.00	10,470,459	0	0	10,470,459	0.00	19,099,210	0	0	19,099,210
DP 904 - Special Education Maintenance of Effort	0.00	1,481,605	0	0	1,481,605	0.00	1,481,846	0	0	1,481,846
DP 906 - School Block Grants (Rst/Bien)	0.00	789,698	0	0	789,698	0.00	1,189,054	0	0	1,189,054
DP 907 - Pupil Transportation	0.00	200,000	0	0	200,000	0.00	300,000	0	0	300,000
DP 910 - School District Audit Filing Fees (Biennial)	0.00	11,550	0	0	11,550	0.00	17,182	0	0	17,182
DP 911 - School Lunch State Matching Requirement	0.00	15,206	0	0	15,206	0.00	27,731	0	0	27,731
DP 912 - Federal Grant Award Adjustment - Program 09	0.00	0	0	7,733,960	7,733,960	0.00	0	0	11,383,960	11,383,960
DP 913 - Biennial Appropriations - Program 09	0.00	(72,585)	0	0	(72,585)	0.00	(72,588)	0	0	(72,588)
DP 914 - Guarantee Account	0.00	87,385,855	0	0	87,385,855	0.00	81,933,879	0	0	81,933,879
Total Other Present Law Adjustments	**0.00**	**$118,367,119**	**$0**	**$7,733,960**	**$126,101,079**	**0.00**	**$122,061,645**	**$0**	**$11,383,960**	**$133,445,605**
Grand Total All Present Law Adjustments	**0.00**	**$132,980,423**	**$0**	**($6,879,517)**	**$126,100,906**	**0.00**	**$136,674,952**	**$0**	**($3,229,517)**	**$133,445,435**

Program Personal Services Narrative

This program does not have any associated FTE. See Program 6 for this narrative.

The following table shows all the proposals requested by the executive for the K-12 distribution to schools program.

Distribution to Schools, General Fund, State Special, and Federal Funds - Executive Proposal

Description	Base Budget 2010	PL Base Adjustments Fiscal 2012	New Proposals Fiscal 2012	Total Fiscal 2012	PL Base Adjustments Fiscal 2013	New Proposals Fiscal 2013	Total Fiscal 2013
Base Aid Summary	$567,296,789	$38,180,817	-$36,451,833	$569,025,773	$46,815,200	-$36,415,392	$577,696,597
HB 2 General Fund	$433,979,450	$125,566,672	-$36,451,833	$523,094,289	$128,749,079	-$36,415,392	$526,313,137
Guarantee Account	$133,317,339	-$87,385,855	$0	$45,931,484	-$81,933,879	$0	$51,383,460
General Fund							
Base Aid							
Direct State Aid	$226,393,777	$106,732,684	$0	333,126,461	$106,971,365	$0	333,365,142
Direct State Aid - HB 645 ARRA	$0	$14,613,477	$0	14,613,477	$14,613,477	$0	14,613,477
GTB - School General Fund	137,838,158	$917,398	1,887,685	140,643,241	$3,418,186	1,924,126	143,180,470
GTB - School Retirement	25,303,383	$2,877,731	0	28,181,114	$3,315,037	0	28,618,420
Indian Ed for All	3,037,041	-$18,330	0	3,018,711	-$18,330	0	3,018,711
Close Achievement Gap	3,221,000	$93,600	0	3,314,600	$93,600	0	3,314,600
Quality Educator	38,000,956	$338,562	-38,339,518	0	$338,562	-38,339,518	0
School District Audits	185,135	11,550	0	196,685	17,182	0	202,317
At Risk Payment	0	5,000,000	0	5,000,000	5,000,000	0	5,000,000
Special Education	40,362,884	1,481,605	945,398	42,789,887	1,481,846	1,726,730	43,571,460
Transportation	12,421,927	200,000	0	12,621,927	300,000	0	12,721,927
School Facility Reimbursement	8,586,000	0	-8,586,000	0	0	-8,586,000	0
Instate Treatment	763,760	24,040	0	787,800	24,040	0	787,800
Secondary Vo Ed	1,000,000	0	0	1,000,000	0	0	1,000,000
Adult Basic Ed	524,998	2	0	525,000	2	0	525,000
Gifted & Talented	246,982	3,018	0	250,000	3,018	0	250,000
School Food	648,655	15,206	0	663,861	27,731	0	676,386
HB 124 Block Grants	51,757,156	789,698	0	52,546,854	1,189,054	0	52,946,210
State Tuition Payments	639,308	0	0	639,308	0	0	639,308
HB 464 Advancing Agricultural Education in Montana	156,068	-99,818	0	56,250	-99,818	0	56,250
Total General Fund	$551,087,188	$132,980,423	-$44,092,435	$639,975,176	$136,674,952	-$43,274,662	$644,487,478
State Special Revenue							
Traffic Safety Distribution	$750,000	$0	$0	$750,000	$0	$0	$750,000
Sch Facility & Technology Account - Debt Service	$0	$0	$8,586,000	$8,586,000	$0	$8,586,000	$8,586,000
Sch Facility & Technology Account - Teach Montana	$0	$0	$38,339,518	$38,339,518	$0	$38,931,877	$38,931,877
Total State Special	$750,000	$0	$46,925,518	$47,675,518	$0	$47,517,877	$48,267,877
Federal Special Revenue							
Direct State Aid - HB 645 ARRA	$14,613,477	($14,613,477)	$0	$0	($14,613,477)	$0	$0
Federal School Foods Programs	30,592,519	3,850,000	-	34,442,519	6,000,000	-	36,592,519
ESEA - Title I - Assistance to Disadvantaged	39,097,170	-	-	39,097,170	-	-	39,097,170
ESEA - Title I - Improvement	1,207,500	-	-	1,207,500	-	-	1,207,500
ESEA - Title I - School Improvement	357,592	1,000,000		1,357,592	1,500,000		1,857,592
ESEA - Title I - Migrant Education	796,747	-	-	796,747	-	-	796,747
ESEA - Title I - Neglected & Delinquent	110,231	-	-	110,231	-	-	110,231
ESEA - Title I - Part B - Even Start	329,427	-	-	329,427	-	-	329,427
ESEA Title II - Teacher & Principal Training	12,646,394	-	-	12,646,394	-	-	12,646,394
ESEA Title II - Math & Science	800,351	-	-	800,351	-	-	800,351
ESEA Title II - Technology	1,333,753	-	-	1,333,753	-	-	1,333,753
ESEA Title III-Language Acquisition	291,415	-	-	291,415	-	-	291,415
ESEA Title IV - 21 st Cent Schools	5,316,566	-	-	5,316,566	-	-	5,316,566
ESEA Title IV - Drug Free Schools	1,084,603	-	-	1,084,603	-	-	1,084,603
ESEA Title V -Innovative Education	11,990	-	-	11,990	-	-	11,990
Title V, Part D Character Education	116,040	(116,040)	-	-	(116,040)	-	-
Title VI - Rural Low Income	223,258			223,258			223,258
IDEA - Children w/ Disabilities	31,032,046	3,000,000	-	34,032,046	4,000,000	-	35,032,046
IDEA - Preschool	1,126,777	-	-	1,126,777	-	-	1,126,777
IDEA - Part D	181,751	-	-	181,751	-	-	181,751
WIA Sect 503 Incentive Grant	174,806	-	-	174,806	-	-	174,806
Adult Basic Education	1,020,157	-	-	1,020,157	-	-	1,020,157
Carl Perkins	2,696,007	-	-	2,696,007	-	-	2,696,007
Carl Perkins State Leadership	149,500	-	-	149,500	-	-	149,500
Learn and Serve Montana	21,523	-	-	21,523	-	-	21,523
Reading First	764,956	-	-	764,956	-	-	764,956
Education of Homeless Children	99,244	-	-	99,244	-	-	99,244
Migrant Incentive	84,390	-	-	84,390	-	-	84,390
Total Federal Special	$146,280,190	($6,879,517)	$0	$139,400,673	($3,229,517)	$0	$143,050,673
Funding							
Total General Fund	$551,087,188	$132,980,423	-$44,092,435	$639,975,176	$136,674,952	-$43,274,662	$644,487,478
Total State Special	750,000	0	46,925,518	47,675,518	0	47,517,877	48,267,877
Total Traditional Federal	146,280,190	-6,879,517	0	139,400,673	-3,229,517	0	143,050,673
Total Distribution to Public Schools	$698,117,378	$126,100,906	$2,833,083	$827,051,367	$133,445,435	$4,243,215	$835,806,028
Statutory Appropriations							
Guarantee Account - Interest & Income	$133,317,339	-$87,385,855	$0	$45,931,484	-$81,933,879	$0	$51,383,460
School Facility and Technology Account	1,000,000	0	0	1,000,000	0	0	1,000,000
Total Statutory	$134,317,339	-$87,385,855	$0	$46,931,484	-$81,933,879	$0	$52,383,460

Appropriations for Distribution to Schools - HB 2 - 2011 Session
Legislative Action for K-12 Distribution to Schools - 2013 Biennium
By Fund and Decision Package Number
Program 09

December 14, 2010

Present Law Adjustments		FY 2012	FY2013	Biennium
Decision Package	General Fund			
	Base Aid Changes			
	Use ARRA HB 645 Funds to fund Base Budget for Direct State Aid	$14,613,477	$14,613,477	$29,226,954
PL914	Guarantee Account	87,385,855	81,933,879	169,319,734
PL901	K-12 Base Aid - Adjust to FY 2011 Funding Level	13,085,331	13,085,331	26,170,662
	Direct State Aid	11,909,548	11,472,242	23,381,790
	General Fund GTB	(2,115,780)	(2,115,780)	(4,231,560)
	Retirement GTB	2,877,731	3,315,037	6,192,768
	Indian Ed for All	(18,330)	(18,330)	(36,660)
	Close Achievement Gap	93,600	93,600	187,200
	Quality Educator	338,562	338,562	677,124
PL902	At-Risk Payment Restored	5,000,000	5,000,000	10,000,000
PL910	School District Audits	11,550	17,182	28,732
PL903	K-12 Base Aid Inflation Increase	10,470,459	19,099,210	29,569,669
	Direct State Aid	7,437,281	13,565,244	21,002,525
	General Fund GTB	3,033,178	5,533,966	8,567,144
	Total Base Aid Changes	$130,566,672	$133,749,079	$264,315,751
PL904	Special Education Maintenance of Effort	$1,284,447	$1,284,447	$2,568,894
PL904	Special Education Maintenance of Effort - GTB Impact	197,158	197,399	394,557
PL906	School Block Grants	789,698	1,189,054	1,978,752
PL907	Pupil Transportation	200,000	300,000	500,000
PL911	School Lunch State Matching Requirement	15,206	27,731	42,937
PL913	Biennial Appropriations	(72,758)	(72,758)	(145,516)
	Total Geoeral Fund	$132,980,423	$136,674,952	$269,655,375
PL912	Federal Increases	$7,733,960	$11,383,960	$19,117,920
	Take ARRA money out of Federal and Put io General Fund	(14,613,477)	(14,613,477)	(29,226,954)
	Total Federal	($6,879,517)	($3,229,517)	($10,109,034)
	Total Present Law Adjustments	$126,100,906	$133,445,435	$259,546,341

New Proposals		Fiscal 2012	Fiscal 2013	Biennium
Decision Package	General Fund			
NP950	School Facility Fund Switch	($8,586,000)	($8,586,000)	($17,172,000)
NP951	Quality Educator Fund Switch	(38,339,518)	(38,339,518)	(76,679,036)
NP951	Quality Educator Fund Switch - GTB Impact	1,887,685	1,924,126	3,811,811
NP952	Special Education - Increase for Inflation	945,398	1,726,730	2,672,128
	Total General Fund - New Proposals	($44,092,435)	($43,274,662)	($87,367,097)
	State Special Revenue Accounts			
NP950	Spend School Facility money out of Sch Facility & Tech Acct	$8,586,000	$8,586,000	$17,172,000
NP951	Spend Quality Educator Payment out of Teach Montana Acct	38,339,518	38,339,518	76,679,036
NP951	Increase Quality Educator Payment by Inflation in FY 2013	0	592,359	592,359
	Total State Special - New Proposals	$46,925,518	$47,517,877	$94,443,395
	Net Change General Fund Over FY08 Base (Present Law + New Proposals)	$88,887,988	$93,400,290	$182,288,278
	Net Change All Funds Over FY10 Base	$128,933,989	$137,688,650	$266,622,639

State Spending in the 2010 general fund base budget	$ 551,087,188
BASE Aid paid for out of the Guarantee Fund (Interest and Income on State Lands)	133,317,339
Total State Spending on K-12 - FY2010	$ 684,404,527

DP 901 - K-12 BASE Aid - Adjust to FY 2011 Funding Level - This present law adjustment of $26.17 million general fund for the 2013 biennium brings K-12 funding to the FY 2011 funding level or $13.09 million per year (established in 20-9-306, MCA).

LFD COMMENT

The purpose of this decision package is to acknowledge that funding for K-12 BASE Aid in FY 2012 and FY 2013 must achieve levels consistent with the FY 2011 basic entitlements and per-ANB entitlements or else the law setting entitlements must be changed. The base general fund budget for K-12 reflects FY 2010 entitlements but must be increased to FY 2011 current law entitlements through this decision package, otherwise the entitlements in law must be reduced to FY 2010 levels. The legislature in 2009 scheduled a 3 percent increase in entitlements between FY 2010 and FY 2011.

This decision package is calculated for FY 2012 and FY 2013 holding the basic and per-ANB entitlements constant at FY 2011 levels while letting ANB and other determinants of GTB funding (such as nonlevy revenue and fund balance reappropriated) vary as this information is available. In addition the quality educator payment, the Indian education for all payment, and the achievement gap payment are also held constant and the cost is projected into each year of the 2013 biennium.

If this decision package fails, the law would need to be changed so that the basic and per-ANB entitlements are reduced to FY 2010 levels, or there will be a supplemental request for additional K-12 funding in FY 2013. If this decision package is approved no change in law is required.

LFD ISSUE

Incorrect Calculation

The executive did not correctly calculate this decision package. The executive used an older model that did not incorporate the latest budget information from school districts that became available in November 2010. School districts reported lower fund balances appropriated than were assumed in the executive's forecast. Lower fund balances appropriated results in higher general fund GTB. In addition, newer data resulted in a significant increase in expected GTB for county retirement funds. Additionally, October enrollment became available in December which also increased costs compared to ANB estimates assumed by the executive.

Options:

- Add $8.4 million general fund over the biennium to properly account for increased costs
- Accept the executive proposal

LFD COMMENT

The estimates of present law BASE Aid are based on predictions of Average Number Belonging (ANB) in FY 2012 and FY 2013. ANB is a measure of enrollments in public schools. The table below shows the ANB assumptions the executive made in estimating BASE Aid. Actual ANB for FY 2012 will be known in March 2011. FTE for the quality educator payment are also shown.

Average Number Belonging (ANB) And Certified FTE in Montana Schools

	Fiscal Year	K-6	% Change	Grade 7-8	% Change	Grade 9-12	% Change	Total	% Change	Certified FTE
Current Year ANB										
A	1996	87,502		27,195		49,043		163,740		
A	1997	86,694	-0.9%	27,399	0.8%	50,586	3.1%	164,679	0.6%	
A	1998	85,374	-1.5%	27,068	-1.2%	51,432	1.7%	163,874	-0.5%	
A	1999	83,030	-2.7%	26,822	-0.9%	51,885	0.9%	161,737	-1.3%	
A	2000	81,175	-2.2%	26,556	-1.0%	52,025	0.3%	159,756	-1.2%	
A	2001	79,854	-1.6%	26,114	-1.7%	51,507	-1.0%	157,475	-1.4%	
A	2002	78,090	-2.2%	25,537	-2.2%	50,794	-1.4%	154,421	-1.9%	
A	2003	76,060	-2.6%	25,080	-1.8%	50,357	-0.9%	151,497	-1.9%	
A	2004	74,315	-2.3%	25,150	0.3%	50,003	-0.7%	149,468	-1.3%	
A	2005	73,229	-1.5%	24,956	-0.8%	49,466	-1.1%	147,651	-1.2%	
A	2006	71,985	-1.7%	24,540	-1.7%	49,302	-0.3%	145,827	-1.2%	
A	2007	71,639	-0.5%	23,805	-3.0%	48,809	-1.0%	144,253	-1.1%	
A	2008	76,118	6.3%	23,041	-3.2%	48,440	-0.8%	147,599	2.3%	
A	2009	77,047	1.2%	22,618	-1.8%	47,502	-1.9%	147,167	-0.3%	
A	2010	77,575	0.7%	22,241	-1.7%	46,152	-2.8%	145,968	-0.8%	
A	2011	78,292	0.9%	22,053	-0.8%	44,984	-2.5%	145,329	-0.4%	
F	2012	79,382	1.4%	22,421	1.7%	44,593	-0.9%	146,396	0.7%	
F	2013	80,708	1.7%	22,639	1.0%	43,882	-1.6%	147,229	0.6%	
Budgeted ANB										
A	2006	73,573		25,242		50,082		148,897		
A	2007	72,763	-1.1%	24,643	-2.4%	49,612	-0.9%	147,018	-1.3%	12,323
A	2008	76,826	5.6%	24,076	-2.3%	49,246	-0.7%	150,148	2.1%	12,648
A	2009	77,753	1.2%	23,353	-3.0%	48,642	-1.2%	149,748	-0.3%	12,564
A	2010	78,325	0.7%	22,874	-2.1%	47,660	-2.0%	148,859	-0.6%	12,455
A	2011	78,973	0.8%	22,510	-1.6%	46,482	-2.5%	147,965	-0.6%	12,603
F	2012	79,556	0.7%	22,548	0.2%	45,351	-2.4%	147,455	-0.3%	12,603
F	2013	80,708	1.4%	22,639	0.4%	44,525	-1.8%	147,872	0.3%	12,603

Beginning in FY 2006, budgeted ANB for each district is the larger of current year ANB and three-year averaged ANB.

Full-time kindergarten began in FY 2008

LFD COMMENT

The following table shows historical and present law levels of the most important variables in the school funding formula. It provides a perspective of the executive's request compared to historical levels of the important elements in the funding formula.

School District Entitlements

Component	FY2004 Actual	FY2005 Actual	FY2006 Actual	FY2007 Actual	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Budget	FY2013 Budget
Bill Authorizing Entitlement Change	SB424	SB424	HB63	HB63	SB1 (SS)	SB1 (SS)	HB676	HB676	Executive	Executive
Basic (Per District) Entitlements										
Elementary	$19,456	$19,859	$20,275	$20,718	$21,290	$21,922	$22,141	$22,805	$23,238	$23,594
Percent Change	1.1%	2.1%	2.1%	2.2%	2.8%	3.0%	1.0%	3.0%	1.9%	1.5%
High School	$216,171	$220,646	$225,273	$230,199	$236,552	$243,649	$246,085	$253,468	$258,284	$262,236
Percent Change	1.1%	2.1%	2.1%	2.2%	2.8%	3.0%	1.0%	3.0%	1.9%	1.5%
Middle School					60,275	62,083	$62,704	$64,585	$65,812	$66,819
Percent Change					NA	3.0%	1.0%	3.0%	1.9%	1.5%
Per ANB Entitlements										
Elementary	$3,949	$4,031	$4,366	$4,456	$4,579	$4,716	$4,763	$4,906	$4,999	$5,075
Percent Change	1.1%	2.1%	8.3%	2.1%	2.8%	3.0%	1.0%	3.0%	1.9%	1.5%
High School	$5,262	$5,371	$5,584	$5,704	$5,861	$6,037	$6,097	$6,280	$6,399	$6,497
Percent Change	1.1%	2.1%	4.0%	2.1%	2.8%	3.0%	1.0%	3.0%	1.9%	1.5%
Per ANB Decrements										
Elementary	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20
High School	$0.50	$0.50	$0.50	$0.50	$0.50	$0.50	$0.50	$0.50	$0.50	$0.50
Per ANB Decrement Stop Loss										
Elementary	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
High School	800	800	800	800	800	800	800	800	800	800
Quality Educator Payment				$2,000	$3,036	$3,042	$3,042	$3,042	$3,042	$3,089
At Risk Payment				$5,000,000	$5,000,000	$5,000,000	$1	$1	$5,000,000	$5,000,000
Indian Ed For All Payment				$200	$200	$200	$200	$200	$200	$200
Indian Achievement Gap Payment				$20.40	$20.40	$20.40	$20.40	$20.40	$20.40	$20.40
GTB Guarantee Ratio	175%	175%	175%	175%	193%	193%	193%	193%	193%	193%
Base Budget Components										
Direct State Aid	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%
Guaranteed tax base aid	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%
Special Ed (Millions)	$34.9	$36.4	$38.5	$39.3	$40.4	$41.6	$41.6	$41.6	$42.4	$43.1

Bill and session year: SB424, 2003. HB 63, 2005; HB1, 2005 SS; SB1 2007SS; 2009 HB 676

In FY 2010 and FY 2011, the basic and per-ANB entitlements were raised by 3% and 3%, but 2% in the first year was OTO.

Bill and session year: HB 667, 1993; HB 22, Nov SS, 1993; HB 47, 1997; SB 100, 1999; HB 4, May SS, 2000; HB121, 2001; SB424, 2003. HB 63, 2005; SB1 2007SS

DP 902 - At-Risk Payment Restored (Restricted) - This request for $10 million general fund in the 2013 biennium is to estore funding for the at-risk student payment found in 20-9-328, MCA.

LFD COMMENT

During the last legislative session, the legislature reduced the at-risk payment to $1 per year, based on the fact that federal stimulus funds for Title 1 programs – which distribute money to districts with high proportions of children from low income homes – would total $34.2 million during the 2011 biennium. The at-risk payment is distributed in the same way as Title 1 funds.

LFD ISSUE

Not BASE Aid

The executive characterizes the at-risk payment as BASE aid. Technically, while the at-risk payment is added to a district's general fund base and maximum budget, the at-risk payment is not BASE Aid and should be placed in its own reporting level.

DP 903 - K-12 BASE Aid-Statutory Inflation Incrs (Rst/Bien) - This request is for $29.57 million for the present law adjustment for the 2013 biennium. Increasing the basic and per-ANB entitlements by 1.90% in FY 2012 and by 1.53% in FY 2013 in accordance with 20-9-326, MCA, requires annual inflation-related adjustments to the basic and per-ANB entitlements. The increase is $10.47 million in FY 2012 and $19.10 million in FY 2013.

LFD COMMENT

20-9-326, MCA requires the Superintendent of Public Instruction to propose inflating the basic and per-ANB entitlements, but the legislature is not bound to apply inflation to the entitlements. The inflation factor is a three-year average change in the CPI-U lagged three years, and is capped at 3 percent.

During the last legislative session, the inflation factor exceeded 3 percent for both FY 2010 and FY 2011. The legislature chose to increase the entitlements by 3% in FY 2010 and by an additional 3% in FY 2011, but made 2% of the 3% increase in the first year one-time-only. In effect the ongoing increases were 1% in FY 2010 and 3% in FY 2011. The inflation increases proposed in this decision package are built on the 1% and 3% increases in the 2011 biennium

DP 904 - Special Education Maintenance of Effort - This request is for $2.9 million in the 2013 biennium to increase special education maintenance of effort to the FY 2011 appropriation level. Federal law requires the state to maintain fiscal effort from year to year in order to receive funds under the Individuals with Disabilities Act (IDEA), Part B. This funding was provided in HB 645 for the 2011 biennium, so the base expenditure was zero. Loss of this maintenance funding would result in an equal loss of federal special education funding for the state under the IDEA program. The request includes increased GTB costs of $197,158 in FY 2012 and $197,399 in FY 2013 associated with the state special education appropriation of $1,284,447 per year.

LFD ISSUE

BASE Aid Increase Should Be Separated From GTB

For every dollar increase in the special education appropriation, the GTB area of the district general fund budget increases by 40 cents. This is paid for, depending on the district, by a combination of local property taxes and GTB. This increases state BASE Aid by the increase in GTB. The executive includes the BASE Aid increase with the increase in the special education appropriation when they should be separated. In addition, the GTB increase is greater than as calculated by the executive. The executive calculates an increase in GTB to be $197,158 in FY 2012 and $197,399 in FY 2013. Using a more recent updated school model the GTB increase associated with the increase in the special education appropriation is $245,459 in FY 2012 and $250,571 in FY 2013.

Options

- Add $496,030 over the biennium to fund special education GTB.
- Accept the executive proposal.

DP 906 - School Block Grants (Rst/Bien) - Present law (20-9-630 and 632, MCA) provides for an annual 0.76 percent increase in the county transportation and school district block grants. This is a general fund appropriation increase of $789,698 in FY 2012 and $1,189,054 in FY 2013.

DP 907 - Pupil Transportation - This request funds the state obligation for pupil transportation required under 20-10-145, MCA. The formula-driven reimbursements are expected to increase by $200,000 in FY 2012 and $300,000 in FY 2013 over base year FY 2010. This amount is matched by county property taxes.

DP 910 - School District Audit Filing Fees (Biennial) - The Office of Public Instruction requests an increase in general fund authority for school district audit filing fees. This increase would allow OPI to pay fees to the Department of Administration as required by 2-7-514(2), MCA. The projection assumes school district revenues, which are the basis for the fees, will increase 3 percent each year. This request includes $11,550 for FY 2012 and $17,182 for FY 2013. Base year expenditures were $185,135. This is a biennial appropriation.

DP 911 - School Lunch State Matching Requirement - The National School Lunch Act requires a state revenue match. OPI requests an increase of $15,206 in FY 2012 and $27,731 in FY 2013 to meet the matching requirements. This is a biennial total request for $42,937.

DP 912 - Federal Grant Award Adjustment - Program 09 - This request would increase and decrease appropriations for K-12 federal grant awards by $7,733,960 in FY 2012 and $11,383,960 in FY 2013. The total biennial increase is $19,117,920. The following federal grant awards are adjusted: School Foods $3.85 million in FY 2012 and $6.0 million in FY 2013; IDEA-B $3.0 million in FY 2012 and $4.0 million in FY 2013; Title I-School Improvement $1.0 million in FY 2012 and $1.5 million in FY 2013; and Character Education is reduced by $116,040 per year.

Federal Grant Awards
Present Law Adjustments

		Increase / Decrease	
Programs	Base 2010	FY2012	FY2013
Direct State Aid - HB 645 ARRA	$14,613,477	-$14,613,477	-$14,613,477
Federal School Foods Programs	30,592,519	$3,850,000	$6,000,000
ESEA - Title I - School Improvement	357,592	$1,000,000	$1,500,000
Title V, Part D Character Education	116,040	-116,040	-116,040
IDEA - Children w/ Disabilities	31,032,046	3,000,000	4,000,000
Total	$76,711,674	-$6,879,517	-$3,229,517

DP 913 - Biennial Appropriations - Program 09 - This proposal establishes biennial appropriations for adult basic education at $1.05 million, gifted and talented at $0.50 million, and in-state treatment at $1.58 million, and reduces advancing agricultural education to $0.11 million. Adult basic education base is increased $2 to $525,000 per year; gifted and talented base is increased $3,018 to $250,000 per year; in-state treatment base is increased $24,040 to $787,800 per year; and advancing agricultural education is decreased to $56,250 per year. The total biennial general fund decrease is $145,173.

DP 914 - Guarantee Account - In FY 2010, the one-time-only bonus paid for the Otter Creek coal lease on common school trust lands generated $81,552,854.50. This amount offset general fund K-12 BASE Aid expenditures in FY 2010. OPI base funding reflects the $81.55 million in the guarantee account which is moved to the K-12 BASE Aid general fund appropriation base in this decision package. An adjustment to the guarantee account is also included in this package to bring the account to the estimated level of funding of $45,931,484 in FY 2012 and $51,383,460 in FY 2013.

LFD ISSUE

Executive Revenue Estimate Greater Than RTIC

The executive assumes revenues from state lands that will be deposited in the guarantee account in the 2013 biennium will be $45,931,484 in FY 2012 and $51,383,460 in FY 2013.

On November 19, 2010, the Revenue and Transportation Interim Committee met to determine revenue estimates for general fund sources and non-general fund sources. The RTIC chose the estimates provided by the LFD. The LFD estimate for amount of state lands revenue deposited in the guarantee account and available for BASE Aid is $44,907,145 for FY 2012 and $45,905,917 for FY 2013, with the primary difference in timber revenues. Utilizing the RTIC numbers for guarantee account revenues means that general fund BASE Aid would be $6,501,882 higher than the executive's 2013 general fund cost.

Options:

- Add $6.5 million to align assumptions to revenues estimates of the RTIC
- Adopt the executive proposal.

New Proposals

The "New Proposals" table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals

	Fiscal 2012						Fiscal 2013				
Program	FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Federal Special	Total Funds
DP 950 - School Facility Fund Switch (Restricted) (Requires Legislation)											
09	0.00	(8,586,000)	8,586,000	0	0		0.00	(8,586,000)	8,586,000	0	0
DP 951 - Quality Educator Component Fund Switch (Restrict) (Requires Legislation)											
09	0.00	(36,451,833)	38,339,518	0	1,887,685		0.00	(36,415,392)	38,931,877	0	2,516,485
DP 952 - Special Education Inflationary Increase											
09	0.00	945,398	0	0	945,398		0.00	1,726,730	0	0	1,726,730
Total	**0.00**	**($44,092,435)**	**$46,925,518**	**$0**	**$2,833,083**		**0.00**	**($43,274,662)**	**$47,517,877**	**$0**	**$4,243,215**

DP 950 - School Facility Fund Switch (Restricted) (Requires Legislation) - This decision package would change the source of funding for the school facility reimbursements (20-9-371, MCA) to K-12 schools from the general fund to the facility and technology fund. This change funds the school facility reimbursements at the FY 2010 base level of $8.586 million each year of the 2013 biennium. This decision package is contingent on passage and approval of LC 360.

LFD ISSUE

Status of Riverbed Rents

The executive proposes to remove spending for debt service reimbursements from the general fund and spend the same amount out of the school facility and technology (SFT) account. The presumed funding for this approximately $17.2 million would come from riverbed stream rents paid into the account beginning in FY 2012. This revenue is around $4.2 million per year from Avista Corp. and is expected to exceed $6.0 million per year from Pennsylvania Power and Light. However, PPL has sued the state of Montana over these payments. PPL lost in the State Supreme Court and sought relief with the US Supreme Court, who on November 1, 2010, referred the case for comment to the US Solicitor General. The case remains at the Office of the Solicitor General at this time and the outcome may be unknown for some time. If PPL wins the case, the expected revenues will not materialize and it is likely the revenue from Avista will disappear also. If the riverbed stream rents disappear, the SFT will not have enough fund balance to pay for the school facility reimbursements during the 2013 biennium.

LFD ISSUE

Revenue Dedication Principles

In 17-1-507, the legislature has defined the principles by which revenues and spending authority are to be placed in a special revenue account. These are:

(1) It is the policy of the legislature that a revenue source not be dedicated for a specific purpose unless one or more of the following conditions are met:

(a) The person or entity paying the tax, fee, or assessment is the direct beneficiary of the specific activity that is funded by the tax, fee, or assessment; the entire cost of the activity is paid by the beneficiary; and the tax, fee, or assessment paid is commensurate with the cost of the activity, including reasonable administrative costs.

(b) There is an expectation that funds donated by a person or entity will be used for a specified purpose. Grants from private or public entities are considered donations under this subsection.

(c) There is a legal basis for the revenue dedication. A legal basis is a constitutional mandate, federal mandate, or statutory requirement in which a source of funds is designated for a specific purpose.

(d) There is a recognized need for accountability through a separation of funding from the general fund consistent with generally accepted accounting principles.

(2) The total funding for a program is a legislative budget and policy issue for which a dedicated revenue provision may not be justified if:

(a) a general fund appropriation is needed to supplement the dedicated revenue support for the program or activity; or

(b) dedicating a revenue source or portion of a revenue source diverts funds that could be considered a general revenue source.

(3) In the consideration of the general appropriations act for each biennium, the legislature shall determine the appropriateness of dedicating revenue to a program or activity under conditions described in subsection (2). The office of budget and program planning shall describe the occurrence in its presentation of the executive budget, and the legislative fiscal analyst shall highlight the issue in the budget analysis and for the appropriations subcommittee considering the revenue dedication.

DP 951 - Quality Educator Component Fund Switch (Restrict) (Requires Legislation) - This decision package would increase the quality educator payment (20-9-327, MCA) by the inflationary factor (1.53%) as calculated in 20-9-326, MCA, for FY 2013 from $3,042 to $3,089 per FTE. The inflationary increase to the payment is $592,360. Included in the request is a change in funding source for the quality educator payment to K-12 school districts from the general fund to the new state special Teach Montana fund. This change funds the quality educator payment portion of K-12 BASE

Aid at $38.3 million in FY 2012 and $38.9 million in FY 2013. This request also includes $1.9 million each year for increased GTB Aid to schools. This decision package is contingent on passage and approval of LC 360.

LFD ISSUE

The quality educator payment was one of four new payments added to the school general fund budget beginning in FY 2007. This decision package retains the quality educator payment in the district general fund, but removes the spending authority from the state general fund and places it in a new Teach Montana state special revenue account, contingent on the passage of LC 360. LC 360 proposes to change the distribution of oil and natural gas revenues so that the portion now distributed to school districts would be cut by 90 percent, which would now be deposited instead in the Teach Montana fund.

The table below shows that 90 percent of historical levels of oil and gas revenues exceeded the current law amount of the quality educator payment ($3,042 per educator, $38.3 million in total) only twice. In the latest year, FY 2010, 90 percent of oil and gas revenues equaled $30.2 million.

The executive estimates that redistributing 90 percent of oil and gas revenues away from school will result in an increase in state GTB payments to school districts of $3.8 million. This is over estimated and should be an increase of around $1.5 million over the 2013 biennium.

Historical Oil and Natural Gas Revenues Received by School Districts, All Funds, FY 1997 - FY 2010

StateFy	Total Oil and Gas Revenues to School Districts	Ninety Percent of District Oil and Gas Revenues
1997	8,081,678	7,273,510
1998	8,581,361	7,723,225
1999	5,621,092	5,058,983
2000	7,089,591	6,380,632
2001	17,452,041	15,706,837
2002	13,457,837	12,112,053
2003	9,491,882	8,542,694
2004	16,944,595	15,250,135
2005	22,171,246	19,954,121
2006	34,744,530	31,270,077
2007	39,927,913	35,935,122
2008	47,242,301	42,518,071
2009	64,305,279	57,874,751
2010	33,593,529	30,234,176

DP 952 - Special Education Inflationary Increase - This decision package funds inflationary increases in the state appropriation for special education, after decision package 904 is approved, by $2,672,128 for the biennium based on the same inflationary adjustment included for basic and per-ANB entitlements in section 20-9-326, MCA. The adjustment for inflation is $945,398 (1.9%) for FY 2012 and $1,726,730 (1.53%) for FY 2013. This proposal would increase the state special education appropriation to $42.44 million for FY 2012 and $43.09 million in FY 2013. The estimates of increased GTB costs associated with the state special education appropriation are $154,099 in FY 2012 and $286,120 in FY 2013.

LFD ISSUE

GTB Increase Less Than Calculation

Every dollar increase in the special education appropriation increases the GTB area of the district general fund budget by 40 cents. This is paid for, depending on the district, by a combination of local property taxes and GTB. This increases BASE Aid by the increase in GTB. The executive includes the BASE Aid increase with the inflationary increase in the special education appropriation when they should be separated. In addition, the GTB increase is greater than as calculated by the executive. The executive calculates an increase in GTB to be $154,009 in FY 2012 and $286,120 in FY 2013. Using a later school model the GTB increase associated with the inflationary increase in the special education appropriation is $160,791 in FY 2012 and $288,698 in FY 2013.

Language and Statutory Authority

The executive recommends the following language be included in HB 2:

"The office of public instruction may distribute funds from the appropriation for In-state Treatment to public school districts for the purpose of providing for educational costs of children with significant behavioral or physical needs."

"All revenue up to $1.1 million in the traffic education account for distribution to schools under the provisions of 20-7-506 and 61-5-121 is appropriated as provided in Title 20, chapter 7, part 5."

"All appropriations for federal special revenue programs in state level activities and in local education activities and all general fund appropriations in local educational activities are biennial."

"Item 2a is contingent on passage of a bill by the 2011 legislature that increases the per-ANB entitlements and the basic entitlements by 1.90% in FY 2012 and by another 1.53% in FY 2013. If legislation is not passed that increases the per-ANB entitlements and the basic entitlements by 1.90% in FY 2012 and another 1.53% in FY 2013, then item 2a is reduced by $10,470,459 in FY 2012 and by $19,099,210 in FY 2013."

"Decision packages 950 and 951 are contingent on passage and approval of LC 360."

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	4.00	4.00	4.00	4.00	4.00	4.00	0.00	0.00
Personal Services	289,792	298,929	295,689	300,929	588,721	596,618	7,897	1.34
Operating Expenses	92,809	112,510	103,466	103,996	205,319	207,462	2,143	1.04
Equipment & Intangible Assets	0	0	0	0	0	0	0	n
Debt Service	1,782	1,782	1,782	1,782	3,564	3,564	0	0.00
Total Costs	**$384,383**	**$413,221**	**$400,937**	**$406,707**	**$797,604**	**$807,644**	**$10,040**	**1.26**
General Fund	198,333	227,589	228,017	233,385	425,922	461,402	35,480	8.33
State Special	186,050	185,632	172,920	173,322	371,682	346,242	(25,440)	(6.84
Total Funds	**$384,383**	**$413,221**	**$400,937**	**$406,707**	**$797,604**	**$807,644**	**$10,040**	**1.26**

Agency Description

Mission Statement: The Montana Constitution created and empowered the Board of Public Education to supervise, serve, maintain, and strengthen Montana's system of free quality public elementary and secondary schools. The board exists to promote high academic achievement for all Montana students.

Article X, Section 9 of the Montana Constitution establishes authority for the seven-member Board of Public Education (BPE). As per constitutional direction the board exercises "general supervision over the public school system" including the Montana School for the Deaf and Blind. General supervision includes activities such as school accreditation, teacher certification, standardization of policies and programs, and equalization of state aid distribution. The board, with recommendation from the Superintendent of Public Instruction, establishes the accreditation status of each school. This accreditation is the basis for local school district eligibility for state funding.

Per 20-2-101, MCA, the board combines with the Board of Regents to create the State Board of Education. The State Board of Education is responsible for general planning, coordination, and evaluation of the state education system, and for developing and submitting to the legislature the unified budget for Montana's educational system.

Agency Highlights

Board of Public Education
Major Budget Highlights

- The Governor proposes to increase this agency's budget by 1.26 percent from the previous biennium
- Major initiatives in the executive budget are:
  - Reductions in operating expenses to make permanent the reductions made by the Governor during the 2011 biennium
  - A fund switch from teacher certification fees to general fund

Legislative Action Issues

- Governor's budget creates a structural imbalance in the state special revenue fund used to support the board and advisory council

Agency Discussion

Goals & Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the legislature may wish to review the following:

- Goals, objectives and year-to-date outcomes from the 2011 biennium
- Critical agency goals, objectives, and anticipated outcomes and their correlation to the executive's budget request for the 2013 biennium

2011 Biennium Goals

The following provides an update of the goals monitored by the LFC during the 2011 biennium.

- The legislature monitored the board's goal work with partners toward 100 percent compliance of schools by the Board of Public Education's March meeting each year as measured by the Annual Accreditation Process;
    - School district accreditation status improved for the second year in a row. In this period, those in advice status declined from 7.0% in FY 2009 to 4.98% in FY 2010 and those in deficiency status declining from 12.9% in FY 2009 to 9.36% in FY 2010

2013 Biennium Goals

During the interim the LFC met with the agency to select critical goals and performance measurements for the legislature to consider during the appropriation process. The LFC endorsed the Shared Policy Goals and Accountability Measures created and adopted by the Education and Local Government Interim Committee, the Board of Public Education and the Superintendent of Public Instruction. The following policy goals are contained in the agreement:

- Prepare students with the knowledge and skills necessary for success in the 21st century global society
- Improve teaching and student learning by promoting data-driven policy decisions and increasing access to educational information
- Improve student achievement in struggling schools
- Increase public awareness in the K-12 educational system recognizing the roles and responsibilities of the state and local educational agencies and the legislature

Agency Overview

The agency budget increases by $10,040, or 1.26% when compared biennium to biennium. The majority of the growth is associated with statewide present law adjustments for personal services and a minor operational increase. The predominant issue within the agency is the structural imbalance that exists in the research fund. The executive requests a funding switch with general fund to remedy this situation; however it does not completely correct the situation. The executive did not propose to add any additional FTE or any changes in the scope of the board's workload.

5% Reduction Plan

No table is included because statute exempts agencies with 20 or fewer FTE from the requirement to submit a 5% reduction plan.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor.

Program Funding Table
K-12 Education

Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000 Total General Fund	$ 198,333	51.6%	$ 228,017	56.9%	$ 233,385	57.4%
01100 General Fund	198,333	51.6%	228,017	56.9%	233,385	57.4%
02000 Total State Special Funds	186,050	48.4%	172,920	43.1%	173,322	42.6%
02122 Advisory Council	111,048	28.9%	112,918	28.2%	113,320	27.9%
02219 Research Fund	75,002	19.5%	60,002	15.0%	60,002	14.8%
Grand Total	$ 384,383	100.0%	$ 400,937	100.0%	$ 406,707	100.0%

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category

Budget Item	General Fund Budget Fiscal 2012	General Fund Budget Fiscal 2013	General Fund Biennium Fiscal 12-13	General Fund Percent of Budget	Total Funds Budget Fiscal 2012	Total Funds Budget Fiscal 2013	Total Funds Biennium Fiscal 12-13	Total Funds Percent of Budget
Base Budget	198,333	198,333	396,666	85.97%	384,383	384,383	768,766	95.19
Statewide PL Adjustments	18,174	23,142	41,316	8.95%	20,044	25,414	45,458	5.63
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00
New Proposals	11,510	11,910	23,420	5.08%	(3,490)	(3,090)	(6,580)	(0.81
Total Budget	**$228,017**	**$233,385**	**$461,402**		**$400,937**	**$406,707**	**$807,644**	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments

	Fiscal 2012 FTE	Fiscal 2012 General Fund	Fiscal 2012 State Special	Fiscal 2012 Federal Special	Fiscal 2012 Total Funds	Fiscal 2013 FTE	Fiscal 2013 General Fund	Fiscal 2013 State Special	Fiscal 2013 Federal Special	Fiscal 2013 Total Funds
Personal Services					5,897					
Inflation/Deflation					(32)					(30)
Fixed Costs					14,179					14,307
Total Statewide Present Law Adjustments		**$18,174**	**$1,870**	**$0**	**$20,044**		**$23,142**		**$0**	**$25,414**
Grand Total All Present Law Adjustments	**0.00**	**$18,174**	**$1,870**	**$0**	**$20,044**	**0.00**	**$23,142**	**$2,272**	**$0**	**$25,414**

Agency Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- **Labor Market Experience** - The Board of Public Education's experience in effectively competing for qualified applicants to fill vacant positions has not been a concern since 2007 as no vacancies have occurred since then.
- **Pay Philosophy** - The main objectives of the BPE Broadband Pay Plan are to be internally equitable, externally

competitive, and sufficiently motivating to more closely reflect the employee's true value to the organization; a closer relationship to the marketplace; and recognition of knowledge and performance levels that contribute to agency effectiveness.

- **Obstacles** - Caps on funding are the biggest obstacles to the Board of Public Education's ability to attract and retain qualified workers to achieve its mission.

New Proposals

The "New Proposals" table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals	Fiscal 2012					Fiscal 2013				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 101 - Research Fund Switch										
01	0.00	15,000	(15,000)	0	0	0.00	15,000	(15,000)	0	0
DP 103 - Rent Increase										
01	0.00	400	0	0	400	0.00	800	0	0	800
DP 55140 - Governor's Budget Reductions										
01	0.00	(3,890)	0	0	(3,890)	0.00	(3,890)	0	0	(3,890)
Total	**0.00**	**$11,510**	**($15,000)**	**$0**	**($3,490)**	**0.00**	**$11,910**	**($15,000)**	**$0**	**($3,090)**

DP 101 - Research Fund Switch - The executive requests a funding switch to move $15,000 per year of expenditures from the research fund to the general fund. The executive is requesting to allow reasonable cash flow in the research fund.

LFD ISSUE

Executive Requests Additional General Fund

Revenues to the research fund, which are used to support a portion of the expenses of the board as well as the Certification Standards and Practices Advisory Council (council), are not sufficient to fund ongoing operations. In the 2013 biennium, the executive recommends that a portion of the funding be switched to general fund, and that the percentage of total general fund be increased from 51.6% in FY 2010 to 57.1% in the 2013 biennium. Therefore, the issue for the legislature is whether to increase fees, reduce expenditures, or increase the current general fund.

Board of Public Education 02219 Research Fund				
	Actual	Appropriated	Requested	
FY	2010	2011	2012	2013
Beginning Fund Balance	$92,550	$66,602	$41,928	$23,252
Revenues	59,889	56,326	56,326	56,326
Expenditures	(85,837)	(81,000)	(75,002)	(75,002)
Ending Fund Balance	$66,602	$41,928	$23,252	$4,576

The table illustrates the structural balance issues for the fund. As shown, the 2009 Legislature used fund balance to fund operations in the 2011 biennium. Without the additional general fund recommended by the Governor, the fund balance would be depleted to less than $5,000 at the end of the 2013 biennium. If DP 101- Research Fund Switch is approved, the fund imbalance would improve to an over appropriation of $7,352 for the 2013 biennium, but would require general fund subsidy.

LFD ISSUE CONT.

There are two issues with the amount going into the fund and its allocation.

- The $6.00 teacher certification fee has not been changed since 1991, when the legislature increased the fee from $5.00 to $6.00.
- As stated earlier, the $6.00 certification fee is split $2.00 to his fund and $4.00 to the advisory council fund for Certification Standards and Practices Advisory council activities. When the fee was increased to $6.00, $3.00 was allocated to cover the expenses of the council and $3.00 for research activities by the council. This allocation was updated to $4.00 and $2.00 respectively, in the 1999 session. In the 2003 session, the fund's purpose was changed to allow the $2.00 fee to be used in support of the constitutional and statutory duties of the board and the council. This policy change significantly expanded the use of the revenue, which attributed to the structural imbalance of the fund. The Advisory Council currently expends all revenues from the $4.00 allocation to the advisory council fund.
- The executive is proposing to subsidize the board with general fund rather than address the revenues available in the research fund.

Options

- Introduce legislation to increase the fees for teacher and specialist certificates and adjust the allocation to deposit the additional revenue in the research fund for operations of the board
- Reduce expenditures of the board by $15,000 per year, the amount necessary to maintain the current ratio of general fund support
- Appropriate additional general fund to the board for operations

DP 103 - Rent Increase - The executive requests a general fund increase of $400 in FY 2012 and $800 in FY 2013 to cover rent increases at the downtown Helena office. This increases rent to $13,457 in FY 2012 and $13,861 in FY 2013.

DP 55140 - Governor's Budget Reductions - The Governor made reductions to agencies' 2011 biennium general fund budgets in accordance with 17-7-140, MCA. A portion of the reductions was effective in FY 2011 and therefore is not reflected in the base. This reduction is to continue the original reduction in the 2013 biennium. This package reduces general fund operating expenditures by $3,890 each year of the biennium.

LFD ISSUE

Unspecific Reduction

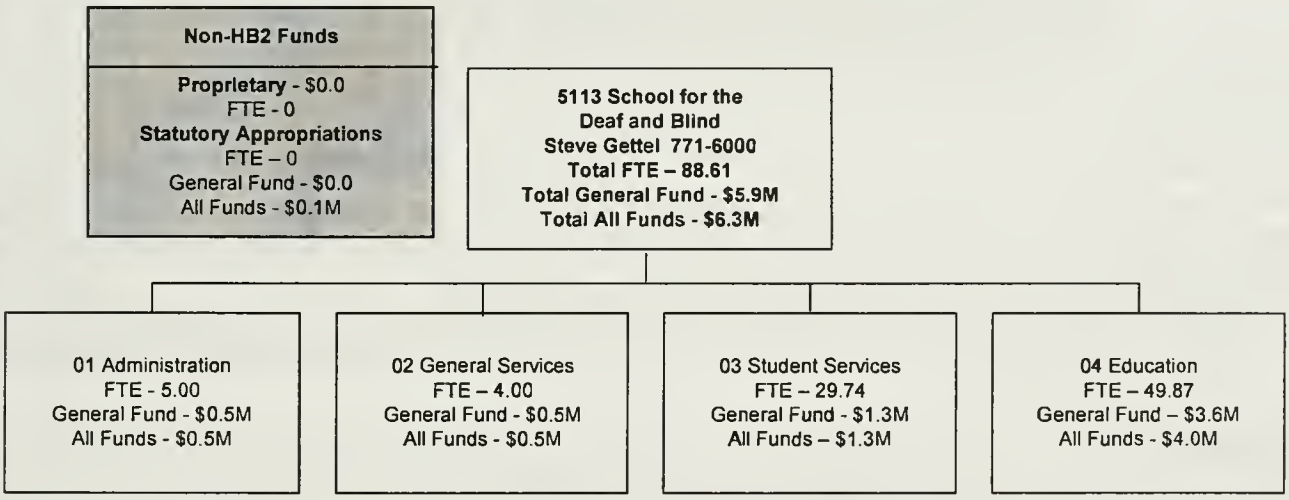
The executive is requesting an unspecific reduction to operating expenses. The legislature is unable to weigh the risks of this reduction without detailed information regarding where the reduction would be made.

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	88.61	88.61	87.36	87.36	88.61	87.36	(1.25)	(1.41%)
Personal Services	5,396,578	5,496,967	5,511,251	5,513,733	10,893,545	11,024,984	131,439	1.21%
Operating Expenses	881,906	888,391	840,115	804,717	1,770,297	1,644,832	(125,465)	(7.09%)
Total Costs	**$6,278,484**	**$6,385,358**	**$6,351,366**	**$6,318,450**	**$12,663,842**	**$12,669,816**	**$5,974**	**0.05%**
General Fund	5,865,460	5,953,456	6,000,578	5,967,474	11,818,916	11,968,052	149,136	1.26%
State Special	333,818	348,929	268,731	268,919	682,747	537,650	(145,097)	(21.25%)
Federal Special	79,206	82,973	82,057	82,057	162,179	164,114	1,935	1.19%
Total Funds	**$6,278,484**	**$6,385,358**	**$6,351,366**	**$6,318,450**	**$12,663,842**	**$12,669,816**	**$5,974**	**0.05%**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to nclude the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency oroprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

Mission Statement: As part of Montana's educational system, the Montana School for the Deaf and the Blind is ommitted to promote and provide free and appropriate educational opportunities statewide, for children who are deaf, ard of hearing, blind, low vision, and deaf-blind ages birth to twenty-one. This comprehensive education ensures these hildren achieve their greatest potential for independence and success.

The Montana School for the Deaf and Blind (MSDB), located in Great Falls, is part of Montana's educational system, nd under the policy and governance of the State Board of Public Education. The school is a state funded special urpose school with a residential option for children and adolescents whose hearing or sight is a barrier to receiving roper education in the public schools of the state. MSDB also provides outreach educational services and serves as a esource center for parents of deaf and blind children, as well as state public schools and organizations that serve sensory npaired children.

he school consists of four programs with the following functions:

- Administration (5.0 FTE) - purchasing, accounting, personnel functions, and overall management of the school
- General Services (4.0 FTE) - upkeep and maintenance of school facilities and grounds of the 18.5 acre campus

- Student Services (29.74 FTE) - round-the-clock residential care for children residing at the school, including general supervision, meal services, and support services
- Educational Services (49.87 FTE) –residential, outreach, and mainstream educational programs

Agency Highlights

Montana School for the Deaf and Blind Major Budget Highlights
♦ The Governor proposes to increase the school's budget by .05%, due primarily to statewide present law adjustments and the executive's proposed personal services reduction ♦ The major initiative in this budget is the executive's personal services reduction
Legislative Action Issues
♦ Personal services reductions may negatively impact the school's ability to provide a quality education for sensory impaired students ♦ If the legislature increases the quality educator payment, an adjustment to this budget is required by statute

Agency Discussion

Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the legislature may wish to review the following:

- Goals, objectives and year-to-date outcomes from the 2011 biennium.
- Critical agency goals, objectives, and anticipated outcomes and their correlation to the executive's budget request for the 2013 biennium.

2011 Biennium Goals

The following provides an update of the goals monitored by the LFC during the 2011 biennium.

- Ability to recruit and retain qualified educators and staff
  - During the 2008-09 school year, the school was able to fill critical positions within three months of posting
- Students receive an education that allows for them to achieve their highest level of independence
  - The school has started to survey students and parents regarding the educational program. In addition the school has begun to collect post-graduation data
- Increase outreach services provided in home school districts
  - During FY 2009, the school completed 4,367 outreach visits, a threefold increase over the previous year
- Student services provides high quality residential care
  - The school has established a process to track student, parent, and community satisfaction with the residential care program. The program received higher than satisfactory marks

2013 Biennium Goals

During the interim the LFC met with the agency to select critical goals and performance measurements for the legislature o consider during the appropriation process. The identified critical goals are:

- Provide outreach services in home school districts

Agency Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- **Labor Market Experience** - The school has been effective in filling vacancies in teaching, outreach, and professional education support staff. This has been largely due to the market adjustment funds appropriated by the 2007 Legislature. The applicant pool size for these positions remains small. Being able to offer a competitive salary is critical to filling vacancies that occur in these positions.

  The highest turnover rates occur in the lowest paid positions including maintenance workers in the General Services Program, student care workers in the Student Services program, and teaching assistants and the lifeguard in the Education Program. Additionally, the school has problems in finding substitutes to work in both the Student Services and Education programs. Multiple recruitments have occurred to find substitutes and fill vacancies that have occurred in teaching assistants and the lifeguard.

- **Pay Philosophy** - Staff covered by the broadband pay plan (pay plan 20) typically come in at 80% of market. This will continue to be the practice into the 2013 biennium. The school's focus in pay for teachers and professional support staff has been to improve their pay relative to the Great Falls market. The 2007 legislature appropriated funds for a market adjustment for staff in these positions. There is a concern that if salary schedules for these positions remain stagnant, the problem of not being able to attract and retain qualified staff will resurface.

- **Obstacles** - For positions requiring licensure and or certification the number of qualified candidates interested in coming to Montana continues to shrink. This is primarily due to the lack of training programs in Montana and fewer training programs regionally and across the country as federal funds for low incidence training programs remains unchanged from 15 years ago.

  With a small administrative staff and no human resource staff it has been difficult to find time to develop evaluation tools and pay factors and integrate the agency's core competencies into pay plan 20. Compensation for performance and skill factors could improve retention of classified hourly staff.

  If the school cannot improve entry salaries for classified hourly staff, the potential impact will be continued high turnover in these positions. Additionally, if the school cannot improve salaries for teachers and professional support staff going into the 2013 biennium, it could impact the ability to recruit and fill vacancies that occur.

gency Overview

% Reduction Plan

tatute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The ollowing summarizes the plan submitted for this agency

Total 5% Reduction Plan Identified by Agencies, By Division
Included and Not Included in Executive Budget
2013 Biennium

Program/DP Number/Description	FTE	General Fund	% Of Total
Student Services			
Included in Executive Budget			
55400 4% Personal Services Reduction	1.39	$41,204	7.1%
Subtotal Included in Executive Budget		$41,204	7.1%
Not Included in Executive Budget			
Personal Services Reduction		$75,390	12.9%
Subtotal Not Included in Executive Budget		$75,390	12.9%
Total Student Services Program		$116,594	20.0%
Education Services			
Included in Executive Budget			
55400 4% Personal Services Reduction	1.87	$113,334	19.4%
Subtotal Included in Executive Budget		$113,334	19.4%
Not Included in Executive Budget			
Personal Services Reduction		$207,561	
Operational Adjustment*		$146,076	25.0%
Subtotal Not Included in Executive Budget		$353,637	60.6%
Total Educational Services		$466,971	80.0%
Total Reduction Plan			
Included in Executive Budget		$154,538	26.5%
Not Included in Executive Budget		429,027	73.5%
Total Agency Reduction Plan		$583,565	

*This amount is for both the education services program and the general services program, the plan submitted was not specific.

The 5% reduction plan for the school totals $583,565 for the biennium. The executive budget includes $154,538 of this reduction in DP55400 – 4% personal services reduction in both the Student Services and Education Programs. The remaining $429,027 of the plan is not included in the executive request and would reduce expenditures by a further 3.42%. According to the agency's plan, the remaining funds would be removed from the operational budget in the form of deferral of maintenance activities and a reduction in educational materials.

LFD ISSUE

Total Plan is Less than 5%

The executive 5% plan is only 4.6% of the base budget. The amount of the plan should be $595,334 for the biennium or an additional $11,769.

Risk Of Adopting The 5% Plan

The executive budget includes elimination of 3.26 FTE in Student Services and the Education Program, which is approximately 80% of the base reduction plan. Because a majority of the school's FTE are funded based on the length of the school year, this reduction actually translates to 4.23 fewer employees during the school year. Because this plan requires FTE reductions in Student Services and the Education Program, it may impact the ability of the school to provide a supervised environment and meet educational goals outlined in student Individual Education Plans (IEP), and provide a quality education.

The actual positions are not clearly defined by the executive. However, in the school's 5% reduction plan accompanying language indicates that the targeted positions are cottage life attendants, outreach coordinators, and a campus based education position. The employees in these positions work directly with sensory impaired youth at the school and in local school districts.

LFD ISSUE CONT.

If the legislature chooses to reduce the number of cottage life attendants in the Student Services program, there will be fewer staff individuals to assist with the activities of daily living, provide general supervision, and help youth increase their independence. The school could address this issue through leaving other program positions, such as food service, administration, or infirmary open. In addition, the school could reduce the number of campus based students in the residential program. This would shift the educational obligation back to the local school districts and the Outreach Program.

The second reduction is targeted to the Outreach Program and the Campus Educational Program. Both reductions could delay or prevent a student from meeting goals outlined in the student Individual Education Plans. A reduction in outreach services could result in reduced services to local school districts that may or may not have any expertise available in the education of sensory impaired children to pick up the workload. Campus based reductions could also result in students having reduced services, a reduction that could be enough to decrease the student's ability to meet educational goals of the IEP. The workload for current staff would increase.

The risks outlined above could cumulatively reduce the school's ability to meet its mission of providing a quality education ensuring sensory impaired children achieve their greatest potential for independence and success.

However the risk of the plan must also be balanced with the declining enrollment in the campus based program. If campus based enrollment continues to decline, could the school absorb the reductions without sacrificing quality? Or is this the time for the legislature to consider the potential reductions in conjunction with evaluating the need for a campus based program? The issue for the legislature is how can the specialized services be delivered to sensory impaired students statewide at the most reasonable cost, and perhaps the least restrictive environment.

As part of the budget deliberations process, the legislature may wish to consider a means to ensure a quality education is delivered, such as:

- Request and review a reduced operational plan from the school detailing the level of service that could be provided on the executive's budget request, including projected service provisions
- Discuss a means of evaluating the need for delivering services in campus based program given declining enrollment AC and potentially establishing a method to provide quality services on a state wide basis at a lower cost
- Require performance monitoring of the educational program during the 2013 biennium either through the Legislative Finance Committee or the Education and Local Government Interim Committee

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding
2013 Biennium Budget

Agency Program	General Fund	State Spec.	Fed Spec	Grand Total	Total %
01 Administration Program	$ 916,206	$ 7,704	$ -	$ 923,910	7.29%
02 General Services	992,824	-	-	992,824	7.84%
03 Student Services	2,740,790	-	30,786	2,771,576	21.88%
04 Education	7,318,232	529,946	133,328	7,981,506	63.00%
Grand Total	$ 11,968,052	$ 537,650	$ 164,114	$ 12,669,816	100.00%

MSDB's programs are funded primarily with general fund, augmented by federal funding from the Individuals with Disabilities Education Act and the school lunch program. It also receives revenues generated from school trust lands. The executive budget estimates $263,000 each year of the biennium in trust land revenues. Revenues fluctuate based upon the activities occurring on school lands. Tuition for out-of-state students is statutorily appropriated to the school. Unlike other public schools, the school does not have the ability to levy property taxes to support school programs.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	5,865,460	5,865,460	11,730,920	98.02%	6,278,484	6,278,484	12,556,968	99.1
Statewide PL Adjustments	185,455	152,339	337,794	2.82%	123,219	90,291	213,510	1.6
Other PL Adjustments	26,938	26,938	53,876	0.45%	26,938	26,938	53,876	0.4
New Proposals	(77,275)	(77,263)	(154,538)	(1.29%)	(77,275)	(77,263)	(154,538)	(1.22
Total Budget	**$6,000,578**	**$5,967,474**	**$11,968,052**		**$6,351,366**	**$6,318,450**	**$12,669,816**	

Agency Issues

Role of MSDB

Since its inception as a one-room school in the 19th century, MSDB it has evolved from a residential program to a campus based program with outreach services to support sensory impaired students remaining in their home districts. Over time this evolution has changed the role from a specialized school to a resource center with alternatives for service delivery. The challenge of the legislature is to fund the school in a manner that recognizes this transition, as well as the many unique challenges to the school, including the specialized nature of the staff and attendant recruitment and retention issues, and Montana's rural nature.

The transition has resulted in fewer residential students and an increase is support services delivered in local school districts as per table below. To balance resources between residential services and outreach services, each must be funded at a level where students can make progress under their IEPs and achieve their greatest potential for independence and success. To assure that this is achieved, the legislature may wish to examine the outcomes for students under both programs. This could be done through utilizing the performance measurement project of the Legislative Finance Committee or through directing the Board of Public Education, which serves as the school's board of trustees, to develop measures to assure progress is measured in both programs.

Montana School for the Deaf and Blind Student Enrollment Counts							
Fiscal Year	2003	2004	2005	2006	2007	2008	2009
Campus Program							
Education Program – Deaf	48	51	52	54	51	38	34
Education Program – Blind	25	24	23	20	19	20	19
Transition Students	0	0	0	0	0	4	2
Total Campus Program Students	73	75	75	74	70	62	55
Outreach Services – D/HH Students	89	95	88	99	100	142	141
Outreach Services – VI Students	188	188	174	187	212	242	229
Outreach Services – Deaf/Blind Students	0	0	0	0	6	5	8
Total Campus Program Students	277	283	262	286	318	389	378

Secondly, the legislature may wish to consider the financial resources needed to operate the residential school on declining enrollments. Operational costs are incurred for the school regardless of the number of students at the school. This includes operating the recreational center, staffing the food services program, and maintaining the campus. The legislature may wish to examine alternative delivery systems for these services such as contract services in order to reduce the cost and the operational burden to the school. To do this the legislature could direct the school to examine such options and provide the legislature with feedback. The legislature could then evaluate the options and determine if the savings should be reinvested in the educational programs of the school.

Options

- Establish performance measurement program to ensure students who participate in the residential program and the outreach program achieve similar results
- Request that the school evaluate the ability to convert operational costs to contract services and report on the outcomes to the next legislature

Statutory Appropriations

The following table shows the total statutory appropriations associated with this agency. Because statutory appropriations do not require reauthorization each biennium, they do not appear in HB 2 and are not routinely examined by the legislature. The table is provided so that the legislature can get a more complete picture of agency operations and associated policy.

Statutory Appropriations
Department of Natural Resources and Conservation

Purpose	MCA #	Fund Source	Fiscal 2010	Fiscal 2012	Fiscal 2013
Direct Bearing on Agency Operations					
Tuition Payments for Out-Of-State Students*	20-8-107	SSR	$58,259	$0	$0
Total Statutory Appropriations			$58,259	$0	$0

* The school currently does not have any out-of-state students

As appropriate, LFD staff has segregated the statutory appropriations into two general categories: 1) those where the agency primarily acts in an administrative capacity and the appropriations consequently do not relate directly to agency operations; and 2) those that have a more direct bearing on the mission and operations of the agency.

Program Budget Comparison

The following table summarizes the total executive budget for the program by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	5.00	5.00	5.00	5.00	5.00	5.00	0.00	0.00%
Personal Services	340,043	323,683	336,991	336,165	663,726	673,156	9,430	1.42%
Operating Expenses	148,449	137,113	143,933	106,821	285,562	250,754	(34,808)	(12.19%)
Total Costs	**$488,492**	**$460,796**	**$480,924**	**$442,986**	**$949,288**	**$923,910**	**($25,378)**	**(2.67%)**
General Fund	485,214	456,857	477,166	439,040	942,071	916,206	(25,865)	(2.75%)
State Special	3,278	3,939	3,758	3,946	7,217	7,704	487	6.75%
Total Funds	**$488,492**	**$460,796**	**$480,924**	**$442,986**	**$949,288**	**$923,910**	**($25,378)**	**(2.67%)**

Program Description

The Administration Program includes purchasing, accounting, personnel functions, and overall management the school.

Program Highlights

Administration Program
Major Budget Highlights

- The Governor proposes to decrease this program's budget by 2.67% from the previous biennium
- General fund decreases by 2.67% due to statewide present law adjustments

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table
Administration Program

Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000 Total General Fund	$ 485,214	99.3%	$ 477,166	99.2%	$ 439,040	99.1%
01100 General Fund	485,214	99.3%	477,166	99.2%	439,040	99.1%
02000 Total State Special Funds	3,278	0.7%	3,758	0.8%	3,946	0.9%
02050 School Trust Interest/Income	3,278	0.7%	3,758	0.8%	3,946	0.9%
Grand Total	$ 488,492	100.0%	$ 480,924	100.0%	$ 442,986	100.0%

The program is predominantly funded with general fund. A small portion of funding comes from the school trust interest and income account.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category

Budget Item	General Fund Budget Fiscal 2012	General Fund Budget Fiscal 2013	General Fund Biennium Fiscal 12-13	General Fund Percent of Budget	Total Funds Budget Fiscal 2012	Total Funds Budget Fiscal 2013	Total Funds Biennium Fiscal 12-13	Total Funds Percent of Budget
Base Budget	485,214	485,214	970,428	105.92%	488,492	488,492	976,984	105.74%
Statewide PL Adjustments	(8,048)	(46,174)	(54,222)	(5.92%)	(7,568)	(45,506)	(53,074)	(5.74%)
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	**$477,166**	**$439,040**	**$916,206**		**$480,924**	**$442,986**	**$923,910**	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments

	Fiscal 2012 FTE	Fiscal 2012 General Fund	Fiscal 2012 State Special	Fiscal 2012 Federal Special	Fiscal 2012 Total Funds	Fiscal 2013 FTE	Fiscal 2013 General Fund	Fiscal 2013 State Special	Fiscal 2013 Federal Special	Fiscal 2013 Total Funds
Personal Services					10,989					10,129
Vacancy Savings					(14,041)					(14,007)
Inflation/Deflation					16					16
Fixed Costs					(4,532)					(41,644)
Total Statewide Present Law Adjustments		**($8,048)**	**$480**	**$0**	**($7,568)**		**($46,174)**	**$668**	**$0**	**($45,506)**
Grand Total All Present Law Adjustments	**0.00**	**($8,048)**	**$480**	**$0**	**($7,568)**	**0.00**	**($46,174)**	**$668**	**$0**	**($45,506)**

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- **Pay Plan Exceptions** - The program does not have any pay exceptions.
- **Program Specific Obstacles** - The main obstacle this program is facing is offering competitive salaries in recruiting and keeping staff in skilled positions. The school is currently reviewing its pay plan rules for staff covered by the broadband pay plan (20). The current plan, which was adopted prior to the 2009 legislative session, moved employees to market within 5 years of employment. Funding is the main issue in keeping with this plan.
- **Vacancy** - The program did not experience any vacancies this biennium.
- **Legislatively Applied Vacancy Savings** – The Administration Program did not generate vacancy savings. A program transfer was necessary to cover the vacancy savings rate assessed this program.
- **Pay/Position Changes** - Staff covered by the broadband pay plan (20) received the raise contained in the pay plan bill for FY 2009 and the bonus payment contained in the pay plan bill for FY 2010. Funding was included in the pay plan bills for the raise and bonus payment.
- **Retirements** - Two employees are eligible for full retirement in the 2013 biennium. The estimated compensated leave liability is $65,448.

Program Budget Comparison

The following table summarizes the total executive budget for the program by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	4.00	4.00	4.00	4.00	4.00	4.00	0.00	0.00%
Personal Services	155,398	167,187	165,918	166,351	322,585	332,269	9,684	3.00%
Operating Expenses	353,369	376,229	330,106	330,449	729,598	660,555	(69,043)	(9.46%)
Total Costs	**$508,767**	**$543,416**	**$496,024**	**$496,800**	**$1,052,183**	**$992,824**	**($59,359)**	**(5.64%)**
General Fund	508,767	543,416	496,024	496,800	1,052,183	992,824	(59,359)	(5.64%)
Total Funds	**$508,767**	**$543,416**	**$496,024**	**$496,800**	**$1,052,183**	**$992,824**	**($59,359)**	**(5.64%)**

Program Description

The General Services program provides general upkeep and maintenance of school facilities and grounds of the 18.5 acre campus.

Program Highlights

General Services
Major Budget Highlights

- The Governor proposes to decrease this program's budget by 5.64% from the previous biennium
- The general fund reductions are attributed to statewide present law adjustments

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table
General Services

Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000 Total General Fund	$ 508,767	100.0%	$ 496,024	100.0%	$ 496,800	100.0%
01100 General Fund	508,767	100.0%	496,024	100.0%	496,800	100.0%
Grand Total	$ 508,767	100.0%	$ 496,024	100.0%	$ 496,800	100.0%

The program is funded with general fund.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	508,767	508,767	1,017,534	102.49%	508,767	508,767	1,017,534	102.49%
Statewide PL Adjustments	(12,743)	(11,967)	(24,710)	(2.49%)	(12,743)	(11,967)	(24,710)	(2.49%)
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	**$496,024**	**$496,800**	**$992,824**		**$496,024**	**$496,800**	**$992,824**	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					17,433					17,884
Vacancy Savings					(6,913)					(6,931)
Inflation/Deflation					(21,444)					(19,817)
Fixed Costs					(1,819)					(3,103)
Total Statewide Present Law Adjustments		**($12,743)**	**$0**	**$0**	**($12,743)**		**($11,967)**	**$0**	**$0**	**($11,967)**
Grand Total All Present Law Adjustments	**0.00**	**($12,743)**	**$0**	**$0**	**($12,743)**	**0.00**	**($11,967)**	**$0**	**$0**	**($11,967)**

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- **Pay Plan Exceptions** – There are no pay exceptions in this program.
- **Program Specific Obstacles** - The main obstacle this program is facing is offering competitive salaries in recruiting and keeping staff in skilled positions. The school is currently reviewing its pay plan rules for staff covered by the state pay plan 20. The current plan, which was adopted prior to the 2009 legislative session, moved employees to market within 5 years of employment. Funding is the main issue in bringing staff to market within 5 years of employment with the school.
- **Vacancy** - There has been turnover in two maintenance worker positions. The main factor involved with the turnover is the hourly wage paid these positions. The school has not been able to address the hourly wage paid these positions due to funding and pay equity issues with other staff that are in the same pay band under pay plan 20. The vacancies increased the workload for the other two staff in this program. This resulted in some maintenance items not being addressed until all positions were filled.

LFD COMMENT

The inability of the program to retain staff could create a risk to the infrastructure of the facilities. If positions cannot remain filled, routine maintenance is delay and could create costlier repairs at a later date.

- **Legislatively Applied Vacancy Savings** - In FY 2010 this program generated sufficient vacancy savings to cover the applied rate.
- **Pay/Position Changes** - No adjustments were made outside of the state pay plan.
- **Retirements** - One employee is eligible to retire at an estimated compensated leave liability of $12,758.

Program Budget Comparison

The following table summarizes the total executive budget for the program by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	29.74	29.74	29.24	29.24	29.74	29.24	(0.50)	(1.68%)
Personal Services	1,166,592	1,255,537	1,260,748	1,260,879	2,422,129	2,521,627	99,498	4.11%
Operating Expenses	123,994	111,000	124,403	125,546	234,994	249,949	14,955	6.36%
Total Costs	**$1,290,586**	**$1,366,537**	**$1,385,151**	**$1,386,425**	**$2,657,123**	**$2,771,576**	**$114,453**	**4.31%**
General Fund	1,275,193	1,347,377	1,369,758	1,371,032	2,622,570	2,740,790	118,220	4.51%
Federal Special	15,393	19,160	15,393	15,393	34,553	30,786	(3,767)	(10.90%)
Total Funds	**$1,290,586**	**$1,366,537**	**$1,385,151**	**$1,386,425**	**$2,657,123**	**$2,771,576**	**$114,453**	**4.31%**

Program Description

The Student Services program provides round-the-clock residential care for children residing at the school. This includes general supervision, meal services, and support services.

Program Highlights

Student Services Major Budget Highlights
◆ The Governor proposes to increase this program's budget by 4.3% from the previous biennium ◆ The increase in general fund is attributed to the difference between present law adjustments and the personal services reduction ◆ Federal funds decrease due to adjustments in school lunch funding
Major LFD Issues
◆ The Governor's personal service reduction could have a negative impact on the cottage life program

Program Narrative

5% Reduction

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The amounts allocated by the executive for this program is $116,594 general fund for the biennium. The executive included, $41,204 of this amount in DP 55400 – 4% general fund personal services reduction. If the legislature adopted the 5% reduction, this program would eliminate another 0.89 FTE. If the total reduction was made, this program's general fund budget would increase by 1.47% rather than 4.3%.

For a further discussion, see the New Proposals section of this narrative.

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table
Student Services

Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000 Total General Fund	$ 1,275,193	98.8%	$ 1,369,758	98.9%	$ 1,371,032	98.9%
01100 General Fund	1,275,193	98.8%	1,369,758	98.9%	1,371,032	98.9%
03000 Total Federal Special Funds	15,393	1.2%	15,393	1.1%	15,393	1.1%
03167 National School Lunch	15,393	1.2%	15,393	1.1%	15,393	1.1%
Grand Total	$ 1,290,586	100.0%	$ 1,385,151	100.0%	$ 1,386,425	100.0%

This program is funded predominantly by general fund. The program also receives federal school lunch funding.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category

Budget Item	General Fund: Budget Fiscal 2012	General Fund: Budget Fiscal 2013	General Fund: Biennium Fiscal 12-13	General Fund: Percent of Budget	Total Funds: Budget Fiscal 2012	Total Funds: Budget Fiscal 2013	Total Funds: Biennium Fiscal 12-13	Total Funds: Percent of Budget
Base Budget	1,275,193	1,275,193	2,550,386	93.05%	1,290,586	1,290,586	2,581,172	93.13%
Statewide PL Adjustments	115,157	116,451	231,608	8.45%	115,157	116,451	231,608	8.36%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	(20,592)	(20,612)	(41,204)	(1.50%)	(20,592)	(20,612)	(41,204)	(1.49%)
Total Budget	**$1,369,758**	**$1,371,032**	**$2,740,790**		**$1,385,151**	**$1,386,425**	**$2,771,576**	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments

	Fiscal 2012: FTE	General Fund	State Special	Federal Special	Total Funds	Fiscal 2013: FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					168,134					168,29
Vacancy Savings					(53,386)					(53,392
Inflation/Deflation					409					1,55
Total Statewide Present Law Adjustments		**$115,157**	**$0**	**$0**	**$115,157**		**$116,451**	**$0**	**$0**	**$116,45**
Grand Total All Present Law Adjustments	**0.00**	**$115,157**	**$0**	**$0**	**$115,157**	**0.00**	**$116,451**	**$0**	**$0**	**$116,45**

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- **Pay Plan Exceptions** - The program does not have any pay exceptions.
- **Program Specific Obstacles** - The main obstacle this program is facing is the qualified applicant pool is very

small. In addition, the hourly staff has the summer months off (with no pay) and one weekend per month and holidays the staff has reduced hours due to student travel, thus a reduction in available hours to work. Staff is not able to collect unemployment during the summer months and many must seek secondary employment during those times. There are no training programs in Montana for cottage life attendants with an emphasis on working with sensory impaired children.

- **Vacancy** - There is high turnover in cottage life attendant positions. There are several factors that impact this starting with (1) shift schedules worked; and (2) low hourly wage paid. The school implemented a training program where employees receive 40 hours of training based on a college curriculum. Employees receive an hourly wage increase after completing their probationary period and having successfully passed this training program. This is contained in a collective bargaining agreement that covers these employees. Vacancies increase the workload put on other employees. This causes increased overtime in some cases and puts pressure on this program to find substitutes suitable to work in this program. The Student Services Program as well as the Education Program have a difficult time finding substitutes who can work when staff is on paid leave or when vacancies occur.
- **Legislatively Applied Vacancy Savings** - The program had to intentionally hold positions open to generate the applied vacancy savings rate.

LFD COMMENT

The program experienced a personal services vacancy savings rate of 6.35%, which is an off set between excess hours for cottage life attendants due to overtime and training and empty or partially filled positions in the food service and infirmary programs.

- **Pay/Position Changes** - Staff covered by the broadband pay plan 20 received the raises contained in the pay plan bill for FY 2009 and the bonus payment contained in the pay plan bill for FY 2010. Funding was included in the pay plan bills for each year.
- **Retirements** - Six employees will be eligible to retire at an estimated compensated leave liability of $91,554. This represents 20% of the staff.

New Proposals

The "New Proposals" table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals	Fiscal 2012						Fiscal 2013				
Program	FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Federal Special	Total Funds
DP 55400 - 4% Personal Services Reduction											
03	(0.50)	(20,592)	0	0	(20,592)		(0.50)	(20,612)	0	0	(20,612)
Total	**(0.50)**	**($20,592)**	**$0**	**$0**	**($20,592)**		**(0.50)**	**($20,612)**	**$0**	**$0**	**($20,612)**

DP 55400 - 4% Personal Services Reduction - The executive recommends a 4% reduction of personal services funded with general fund. This request represents a general fund biennial decrease of $41,204 in personal services for the biennium. This package eliminates 0.50 FTE.

LFD ISSUE

Potential Negative Impact

The agency's 5% plan indicates this reduction would come from the cottage attendant program. However, the corresponding FTE in the decision package are not identified. If this reduction comes from the cottage life attendant program, it could impact the school's ability to provide adequate supervision of students living in the cottage program.

LFD ISSUE CONT.

Having sufficient staff to provide supervision of students during the after school, nighttime, and weekend hours is critical to student safety as well as the development of social, leisure and independent living skills. In order to maintain adequate staffing in the cottage program, school administration could opt to increase overtime costs by keeping other program positions vacant. At the time the 5% plan was written the program had 2.31 FTE vacant in the cottage attendant program, 1.54 FTE for administration and 2.00 FTE for food services. The legislature may wish to consider adjusting the reduction to a level that does not impact the cottage program by eliminating positions from the administration or food services.

Program Budget Comparison

The following table summarizes the total executive budget for the program by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	49.87	49.87	49.12	49.12	49.87	49.12	(0.75)	(1.50%)
Personal Services	3,734,545	3,750,560	3,747,594	3,750,338	7,485,105	7,497,932	12,827	0.17%
Operating Expenses	256,094	264,049	241,673	241,901	520,143	483,574	(36,569)	(7.03%)
Total Costs	**$3,990,639**	**$4,014,609**	**$3,989,267**	**$3,992,239**	**$8,005,248**	**$7,981,506**	**($23,742)**	**(0.30%)**
General Fund	3,596,286	3,605,806	3,657,630	3,660,602	7,202,092	7,318,232	116,140	1.61%
State Special	330,540	344,990	264,973	264,973	675,530	529,946	(145,584)	(21.55%)
Federal Special	63,813	63,813	66,664	66,664	127,626	133,328	5,702	4.47%
Total Funds	**$3,990,639**	**$4,014,609**	**$3,989,267**	**$3,992,239**	**$8,005,248**	**$7,981,506**	**($23,742)**	**(0.30%)**

Program Description

The Education Program provides services in three different settings:

1. At the Great Falls campus for students whose impairments prevent them from receiving a quality education in their home school district;
2. Through mainstream services through the Great Falls campus in a joint effort with Great Falls public schools; and
3. Through outreach services for students who remain in their home districts.

The program is also responsible for tracking hearing or visually impaired students from the time of identification through the child's exit from intervention or educational services.

Program Highlights

Education Program
Major Budget Highlights

- The Governor proposes to decrease this program's budget by 0. 3% from the previous biennium
- The major initiative in this program is the reduction of general fund personal services
- State special revenue decreases by 21.6% due to lower revenue estimates for the trust interest and income fund

Program Narrative

Goals and Objectives

2013 Biennium Goal

The Legislative Finance Committee recommends the legislature consider the following critical goal and performance measurement(s) as part of its decisions on the executive's budget requests for this program.

- Ability to recruit and retain qualified educators and staff
- Provide outreach services in home school districts

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The amount allocated by the executive for this program is $466,971 general fund for the biennium. The executive included $113,334 of this amount in DP 55400 – 4% general fund personal services reduction. The remaining $353,637, which would reduce the budget by a further 4.4%, is not included in the executive request.

According to the agency's 5% plan, the remaining reduction would result in delayed maintenance and a reduction in the educational supply budget. The impact of this action could be increased maintenance costs at a later date due to delaying simple maintenance that could translate to major repairs. In addition, educational impacts to students could result from decreased access to quality materials resulting in lower test scores or the inability of the school to meet the student's individual education plan.

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table
Education

Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000 Total General Fund	$ 3,596,286	90.1%	$ 3,657,630	91.7%	$ 3,660,602	91.7%
01100 General Fund	3,596,286	90.1%	3,657,630	91.7%	3,660,602	91.7%
02000 Total State Special Funds	330,540	8.3%	264,973	6.6%	264,973	6.6%
02050 School Trust Interest/Income	330,540	8.3%	264,973	6.6%	264,973	6.6%
03000 Total Federal Special Funds	63,813	1.6%	66,664	1.7%	66,664	1.7%
03012 E.C.I.A. Chapter I	63,813	1.6%	66,664	1.7%	66,664	1.7%
Grand Total	$ 3,990,639	100.0%	$ 3,989,267	100.0%	$ 3,992,239	100.0%

This program is predominantly funded with general fund. The program also utilizes school trust interest and income, as well as federal Individuals with Disabilities Education Act funds.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category

	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	3,596,286	3,596,286	7,192,572	98.28%	3,990,639	3,990,639	7,981,278	100.00%
Statewide PL Adjustments	91,089	94,029	185,118	2.53%	28,373	31,313	59,686	0.75%
Other PL Adjustments	26,938	26,938	53,876	0.74%	26,938	26,938	53,876	0.68%
New Proposals	(56,683)	(56,651)	(113,334)	(1.55%)	(56,683)	(56,651)	(113,334)	(1.42%)
Total Budget	**$3,657,630**	**$3,660,602**	**$7,318,232**		**$3,989,267**	**$3,992,239**	**$7,981,506**	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					196,305					199,134
Vacancy Savings					(153,511)					(153,628)
Inflation/Deflation					(14,421)					(14,193)
Total Statewide Present Law Adjustments		**$91,089**	**($65,567)**	**$2,851**	**$28,373**		**$94,029**	**($65,567)**	**$2,851**	**$31,313**
DP 1 - Extracurricular Compensation	0.00	26,938	0	0	26,938	0.00	26,938	0	0	26,938
Total Other Present Law Adjustments	**0.00**	**$26,938**	**$0**	**$0**	**$26,938**	**0.00**	**$26,938**	**$0**	**$0**	**$26,938**
Grand Total All Present Law Adjustments	**0.00**	**$118,027**	**($65,567)**	**$2,851**	**$55,311**	**0.00**	**$120,967**	**($65,567)**	**$2,851**	**$58,251**

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- **Pay Plan Exceptions** – The program does not have any pay exceptions.
- **Program Specific Obstacles** - The main obstacle this program is facing is offering competitive salaries in recruiting and keeping staff in skilled positions. There are no pre-service training programs in Montana for teachers for the deaf and hard of hearing and for teachers of the visually-impaired. Therefore, all teaching staff has to obtain their training out-of-state and the school has to compete nationally to recruit and retain staff in these positions. The 2007 legislature appropriated funds for market adjustments for teachers and professional support staff. This improved the school's ability to recruit and retain these staff. The challenge going forward is to maintain competitive salaries in order for the school to be competitive in recruiting and retaining staff with specialized training in working with sensory impaired students.
- **Vacancy** - The school has high turnover in Teacher Assistants. Teacher Assistants are required to possess or learn additional skills, including sign language and Braille, to work with the students. The rate of pay is a contributing factor for our turnover as they can easily find other jobs with a similar rate of pay or better without having to learn skills. The school does provide training to teacher assistants but has not been able to address pay rate. Due to the turnover, current staff was required to cover additional duties/assignments. Students did not have the same amount of access to individualized support.
- **Legislatively Applied Vacancy Savings** - Some positions had to be partially filled or held vacant to generate vacancy savings.
- **Pay/Position Changes** - The collective bargaining agreement that covers teachers and professional support staff provides a salary increase for members who complete an additional 10 semester college credit hours and move a lane on the teacher's salary schedule (e.g., move from BA to BA+10). The school on average has 1 to 2 teachers each year that move on the schedule. Funding for pay increases resulting from teachers moving on the pay schedule is paid from vacancy savings.
- **Retirements** - Eleven employees will be eligible for retirement at an estimated compensated leave liability of $150,149. The actual impact at this point in time is uncertain. The school is working on memorandums of understanding with training programs outside of Montana from which potential qualified teachers and support specialists can be recruited. It is hopeful this will assist the school in recruiting qualified applicants.

DP 1 - Extracurricular Compensation - The executive requests a base adjustment of $26,938 per year for compensation to employees who sponsor after school activities, which are not included in the base budget.

New Proposals

The "New Proposals" table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals	Fiscal 2012					Fiscal 2013				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 55400 - 4% Personal Services Reduction										
04	(0.75)	(56,683)	0	0	(56,683)	(0.75)	(56,651)	0	0	(56,651)
Total	**(0.75)**	**($56,683)**	**$0**	**$0**	**($56,683)**	**(0.75)**	**($56,651)**	**$0**	**$0**	**($56,651)**

DP 55400 - 4% Personal Services Reduction - The executive recommends a 4% reduction of personal services funded with general fund. The reduction includes the permanent reduction of FTE. This decision package eliminates 0.75 FTE that are not specified, and $113,334.

LFD COMMENT

The agency did not identify the positions to be reduced in the budget submission. The corresponding plan, with minimal detail, indicates that the positions would be removed from the educational program. The additional information provided from the school provides two "what-if" scenarios describing what would occur if the reductions were taken in the campus program or the outreach program. At the time the plan was written, the program had 0.37 FTE vacant.

The following information is provided so that the legislature can consider various performance measurement principles when examining this proposal. It is submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Reason For The Reduction – Executive Request

Affect on Program or Project Outcomes- If reductions in FTE were made in the campus education program, these students would have less access to the curriculum and instruction identified in their Individual Education Program (IEP) goals. As a result the IEP goals for some students would not be met and for others a change in placement could be necessary.

If the reduction in FTE were made in the outreach program, this would result in less consultation and technical assistance to the local school districts that serve sensory impaired students across the state. Districts that do not employ teachers with the requisite training to teach sensory impaired children will find it difficult to meet the educational needs of these children, which in turn might increase the number of students referred to MSDB for placement.

Adjusted Performance Criteria – Not provided.

FTE Impacts - Reductions in FTE in outreach services would result in a redistribution of the case loads to the remaining consultants.

Funding Impacts – General fund only.

Risks – In adopting this proposal, it is possible that sensory impaired children will not receive appropriate educational opportunities, which may prevent the students from achieving their greatest potential for independence and success.

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	7.00	7.00	7.00	7.00	7.00	7.00	0.00	0.00%
Personal Services	580,863	544,960	538,780	539,997	1,125,823	1,078,777	(47,046)	(4.18%)
Operating Expenses	243,542	314,929	309,791	288,748	558,471	598,539	40,068	7.17%
Grants	449,787	420,903	612,729	621,313	870,690	1,234,042	363,352	41.73%
Total Costs	**$1,274,192**	**$1,280,792**	**$1,461,300**	**$1,450,058**	**$2,554,984**	**$2,911,358**	**$356,374**	**13.95%**
General Fund	465,294	463,194	454,845	445,255	928,488	900,100	(28,388)	(3.06%)
State Special	212,426	215,074	204,342	201,903	427,500	406,245	(21,255)	(4.97%)
Federal Special	596,472	602,524	802,113	802,900	1,198,996	1,605,013	406,017	33.86%
Total Funds	**$1,274,192**	**$1,280,792**	**$1,461,300**	**$1,450,058**	**$2,554,984**	**$2,911,358**	**$356,374**	**13.95%**

Agency Description

Mission Statement: The Montana Arts Council is the agency of state government established to develop the creative potential of all Montanans, advance education, spur economic vibrancy and revitalize communities through involvement in the arts.

The Montana Arts Council (MAC) is authorized by Title 22-2-101, MCA to assist public and private institutions with artistic and cultural activities. The council encourages participation in, and appreciation of, the arts. The council fosters interest in the state's cultural heritage, expands state cultural resources, and supports freedom of artistic expression through ongoing programs and projects. The council administers the Cultural and Aesthetic Project grants and other grants approved by the legislature, and makes recommendations to the legislature on arts related issues.

The Montana Arts Council provides these services through a structure consisting of one division with 7.00 FTE

Promotion of the Arts

Grants are funded through the general appropriations act and offered to schools, artists, and cultural organizations including Artists in Schools grants, Public Value Partnership Grants, and other grant programs. MAC also administers grants funded through the Cultural and Aesthetic Trust.

Programs and Services

MAC offers a variety of services to artists in Montana including an artist registry, an arts education hotline, a leadership institute, entrepreneurial initiatives, and other services.

Communication

MAC also offers a number of communication methodologies for those interested in additional information on the arts in Montana, including website services and the State of the Arts newspaper.

Agency Highlights

Montana Arts Council Major Budget Highlights
♦ The Montana Arts Council budget increases 14% in the 2013 biennium due to an anticipated increase in its federal grant from the National Endowment for the Arts ♦ The executive continues the $23,010 17-7-140, MCA, general fund reduction incurred by MAC in the 2011 biennium into the 2013 biennium ♦ Due to its small size, the executive exempts this agency from vacancy savings and the 4% personal services reduction applied to larger agencies ♦ As an agency with 20 or fewer FTE, MAC is exempt from the statutory requirement to submit a 5% reduction plan
Legislative Action Issues
♦ The 2013 biennium executive budget proposes spending more from the cultural and aesthetic project account than the revenue to that account projected by the Revenue and Transportation Interim Committee will support

Agency Discussion

Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the legislature may wish to review the following:

- Goals, objectives and year-to-date outcomes from the 2011 biennium.
- Critical agency goals, objectives, and anticipated outcomes and their correlation to the executive's budget request for the 2013 biennium.

2011 Biennium Goals

The following provides an update of the goals monitored by the LFC during the 2011 biennium.

The LFC monitored MAC's goal to provide access to high quality arts education in order to develop the full creative potential of all Montanans, and do so with a streamlined grant management system and strong web teaching tools. Measurable objectives selected for this goal include:

- 60 community events are held in conjunction with arts education grant programs
- 4,000 community members benefitting from arts education grant programs
- 10% of enrolled K-12 students are served by the art education grant program
- 65% of counties in Montana are served through the art education grant program
- Database is 100% compatible with long-term grant management needs and completed by June 30, 2009

Success: MAC exceeded the outcome measures for arts education community events, number of community members benefitting from the events, percentage of enrolled K-12 students served by the arts education grant program, and the percentage of counties served.

2013 Biennium Goals

During the interim the LFC met with the agency to select critical goals and performance measurements for the legislature to consider during the appropriation process. The identified critical goals are:

- Provide access to high quality arts education in order to develop the full creative potential of all Montanans
- Promote economic vitality by utilizing technology to distribute resources and provide remote learning opportunities

Agency Overview

The MAC budget request increases $356,000, or 14%, over the biennium compared to the 2011 biennium. Most of the growth is in the grants category and is driven by an anticipated 30% increase in federal funds from the National Endowment for the Arts. Operating expenses increase 7% in the 2013 biennium due to increased fixed costs, rent, minor equipment and postage. In addition to typical office-related operating costs, the MAC offers an array of services to Montana artists and art organizations, such as an artist registry and arts education hotline and the bimonthly newspaper, that are recorded as operating expenses. In addition, operating expenses related to administering the Cultural and Aesthetic grant program are included in the MAC budget. The Cultural and Aesthetic grants are included in an appropriations bill (usually HB 9) separate from the general appropriations bill. General fund is decreased $28,000 in the 2013 biennium; most of this decrease is attributable to the executive budget recommendation to continue the 17-7-140, MCA $23,010 reduction implemented in FY 2011 for this agency.

Other 5% Reduction

No table is included because statute exempts agencies with 20 or fewer FTE from the requirement to submit a 5% reduction plan.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Program Funding Table
Promotion Of The Arts

Program Funding		Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000	Total General Fund	$ 465,294	36.5%	$ 454,845	31.1%	$ 445,255	30.7%
	01100 General Fund	465,294	36.5%	454,845	31.1%	445,255	30.7%
02000	Total State Special Funds	212,426	16.7%	204,342	14.0%	201,903	13.9%
	02009 Cultural And Aesthetic Project	212,426	16.7%	204,342	14.0%	201,903	13.9%
03000	Total Federal Special Funds	596,472	46.8%	802,113	54.9%	802,900	55.4%
	03016 Nea Funds-Basic State Grant	541,472	42.5%	747,113	51.1%	747,900	51.6%
	03017 Nea Funds-Arts In Education	55,000	4.3%	55,000	3.8%	55,000	3.8%
Grand	Total	$ 1,274,192	100.0%	$ 1,461,300	100.0%	$ 1,450,058	100.0%

The agency is funded with a combination of general fund, state special revenue funds from the cultural and aesthetic project account, and federal funds from the National Endowment for the Arts. The federal funds require a dollar for dollar match with non-federal revenue. The agency uses general fund and its allocation from the cultural and aesthetic project account to match the federal grant. General fund supports a portion of the agency operations and funds arts grants including artists in the schools and MAC grants.

State special revenue is from the cultural and aesthetic project account, which receives interest earnings from a statutory trust. The trust receives distributions of coal severance tax. By statute, the interest from the cultural trust must be appropriated for protection of works of art in the State Capitol and other cultural and aesthetic projects (15-35-108, MCA). This account supports the Montana Arts Council's administration of the cultural and aesthetic trust activities and its Circle of American Masters (formerly Folklife) program, which promotes Montana's traditional and native arts and cultures. Cultural and aesthetic project funds are also appropriated to MAC for grants authorized in the cultural and aesthetic appropriation bill passed each biennium. In FY 2010, the legislature approved using 32.7% of the total

projected cultural and aesthetic project account revenue for MAC administration of the cultural and aesthetic grants and the folklife program. For the 2013 biennium, the executive recommends using 36.8% of the total projected revenue for administration.

LFD ISSUE Cultural and Aesthetic Project Account is Overspent

The 2013 biennium executive budget proposes biennial expenditures from the cultural and aesthetic project account totaling $1,131,221 while revenues to the account are estimated by the Revenue and Transportation Interim Committee (RTIC) to total $1,103,000, resulting in expenditures exceeding revenues by $28,221, or 2.6% of projected revenue. The legislature may wish to reduce the number or amount of cultural and aesthetic grants, or reduce the amount allocated for administration of the cultural and aesthetic grants.

The cultural and aesthetic project account funds grants authorized in the cultural and aesthetic appropriation bill passed by the legislature each session (usually HB 9) and the costs incurred to administer the grants that are budgeted in HB 2. The Joint Appropriations Subcommittee on Long-Range Planning hears the budget proposal for the HB 9 grants and the Joint Appropriations Subcommittee on Education hears the budget proposal for the HB 2 administrative costs at the Montana Arts Council. The subcommittees may want to consult before making a final determination on reducing expenditures. Reducing grants would either reduce the number of grants funded, or the amount of the grants would be reduced. Reducing funding for administrative costs may impact the administration of the grants or cause other agency funds to be redirected to cultural and aesthetics grant administration, which could impact other agency programs.

Options:

- Reduce proposed grant expenditures, either by reducing the number of grants or reducing the amount of grants
- Reduce proposed administrative expenses
- Reduce both grant and administrative expenses
- Fund the executive budget as proposed

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category

	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	465,294	465,294	930,588	103.39%	1,274,192	1,274,192	2,548,384	87.5
Statewide PL Adjustments	(7,871)	(16,771)	(24,642)	(2.74%)	(20,483)	(40,250)	(60,733)	(2.0
Other PL Adjustments	8,773	8,084	16,857	1.87%	14,149	14,090	28,239	0.9
New Proposals	(11,351)	(11,352)	(22,703)	(2.52%)	193,442	202,026	395,468	13.5
Total Budget	**$454,845**	**$445,255**	**$900,100**		**$1,461,300**	**$1,450,058**	**$2,911,358**	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					(42,083)					(40,866)
Inflation/Deflation					810					997
Fixed Costs					20,790					(381)
Total Statewide Present Law Adjustments		**($7,871)**	**($9,643)**	**($2,969)**	**($20,483)**		**($16,771)**	**($12,301)**	**($11,178)**	**($40,250)**
DP 102 - ARTS PRESENT LAW ADJUSTMENTS	0.00	8,773	1,559	3,817	14,149	0.00	8,084	1,778	4,228	14,090
Total Other Present Law Adjustments	**0.00**	**$8,773**	**$1,559**	**$3,817**	**$14,149**	**0.00**	**$8,084**	**$1,778**	**$4,228**	**$14,090**
Grand Total All Present Law Adjustments	**0.00**	**$902**	**($8,084)**	**$848**	**($6,334)**	**0.00**	**($8,687)**	**($10,523)**	**($6,950)**	**($26,160)**

Agency Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- **Pay Plan Exceptions** – The agency does not utilize pay plan exceptions to address pay issues
- **Program Specific Obstacles** - Employee retention is difficult due to higher salaries and room for advancement at larger state agencies. The most difficult position to keep filled is the accounting technician position
- **Vacancy** – The agency did experience a vacancy in its accounting technician position during FY 2010
- **Legislatively Applied Vacancy Savings** – Because it employs fewer than 20.0 FTE, MAC is exempt from the legislatively applied vacancy savings in the 2011 biennium
- **Pay/Position Changes** – There were no unusual pay adjustments in FY 2010. Two part time positions were paid an average of 67% more hours than budgeted; however, the agency stayed within its legislative appropriation for its overall expenditures
- **Retirements** – MAC has 4 employees eligible for retirement in the 2013 biennium. The total compensated absence liability for these employees was about $53,000 as of October 2010

DP 102 – Arts Present Law Adjustments - The executive recommends funding of $16,857 in general fund, $3,337 in state special revenue, and $8,045 in federal funds over the biennium for anticipated costs of increased office rent, computer replacement based upon a new five year schedule, and increased production and circulation costs for the agency's State of the Arts newspaper.

New Proposals

The "New Proposals" table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals		Fiscal 2012					Fiscal 2013				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 101 - FEDERAL FUNDS INCREASE										
01	0.00	0	0	204,793	204,793	0.00	0	0	213,378	213,37
DP 55140 - GOVERNOR'S BUDGET REDUCTIONS										
01	0.00	(11,351)	0	0	(11,351)	0.00	(11,352)	0	0	(11,35
Total	**0.00**	**($11,351)**	**$0**	**$204,793**	**$193,442**	**0.00**	**($11,352)**	**$0**	**$213,378**	**$202,0**

DP 101 – Federal Funds Increase - The executive increases federal authority over $200,000 each year for anticipated additional federal funds from the National Endowment for the Arts for use primarily in rural Montana and in key arts education programs that help teachers meet state arts standards, in addition to projects geared to saving Montana's heritage in the traditional arts area. These funds would be utilized for grants and programs to benefit all Montanans.

DP 55140 – Governor's Budget Reductions - The executive budget continues the reduction ordered by the Governor under 17-7-140, MCA for FY 2011 into the 2013 biennium.

LFD COMMENT

The 17-7-140, MCA, reductions taken in the 2011 biennium for this agency totaled $23,010. The entire reduction was taken in FY 2011. The executive considered the 17-7-140, MCA, reduction a biennial reduction and proposes reducing base expenditures from the general fund for this agency by $11,505 each year of the 2013 biennium. This reduction would make fewer funds available for the Leadership Institute Online Program, which provides online business management training and resources and governing board leadership training to local arts organizations.

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	30.50	30.50	29.00	29.00	30.50	29.00	(1.50)	(4.92%)
Personal Services	2,064,578	1,779,388	1,738,949	1,740,427	3,843,966	3,479,376	(364,590)	(9.48%)
Operating Expenses	2,069,966	1,888,345	1,996,875	1,976,021	3,958,311	3,972,896	14,585	0.37%
Equipment & Intangible Assets	44,016	19,216	44,016	44,016	63,232	88,032	24,800	39.22%
Grants	493,048	981,429	1,356,857	356,857	1,474,477	1,713,714	239,237	16.23%
Total Costs	**$4,671,608**	**$4,668,378**	**$5,136,697**	**$4,117,321**	**$9,339,986**	**$9,254,018**	**($85,968)**	**(0.92%)**
General Fund	2,722,517	2,787,459	2,721,573	2,705,797	5,509,976	5,427,370	(82,606)	(1.50%)
State Special	803,498	803,523	807,098	803,498	1,607,021	1,610,596	3,575	0.22%
Federal Special	1,145,593	1,060,155	1,608,026	608,026	2,205,748	2,216,052	10,304	0.47%
Other	0	17,241	0	0	17,241	0	(17,241)	(100.00%)
Total Funds	**$4,671,608**	**$4,668,378**	**$5,136,697**	**$4,117,321**	**$9,339,986**	**$9,254,018**	**($85,968)**	**(0.92%)**

Agency Description

Mission Statement: Montana Library Commission (MLC) meets the information needs of Montana government agency management and staff, ensures all Montana citizens have access to information created by their government, supports the role of all Montana libraries in delivering quality library content and services to their patrons, works to strengthen local community public libraries, ensures that Montanans who are visually or physically handicapped are provided access to library resources, and measures its successes by its patrons' and partners' successes.

MLC, authorized in Section 22-1-101, MCA, administers state and federal library funding to operate and maintain the state library, oversees the six library federations located throughout Montana, and develops library oriented statewide long-range planning, policy, and service coordination.

MLC is further authorized in section 90-15-101, MCA to establish a planning framework for the development of the natural resources information system (NRIS), to implement the system, and to establish an ongoing Montana Natural Heritage Program.

Additional responsibilities of the commission include: assisting all tax-supported libraries and local governments wishing to establish or improve libraries; maintaining an audio book library for use by Montanans unable to utilize printed materials; providing access to state publications; and maintaining and providing information related to Montana's plant and animal species and habitat and comprehensive natural resources (land) information.

Agency Highlights

Montana Library Commission Major Budget Highlights
♦ The Governor proposes to decrease this agency's budget by 1% from the previous biennium ♦ The executive budget reduces general funded personal services costs 4% each year of the 2013 biennium, including the elimination of 1.50 FTE positions ♦ The major initiative by the Governor for this agency is to add 1.50 FTE positions in the off-budget Montana Shared Catalog program at a biennial net cost of $37,186 funded 100% from proprietary funds ♦ Interim Committee Recommendation • The Legislative Finance Committee recommends that the budget starting point be the adjusted base minus 5%

Agency Discussion

Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the legislature may wish to review the following:

- Goals, objectives and year-to-date outcomes from the 2011 biennium.
- Critical agency goals, objectives, and anticipated outcomes and their correlation to the executive's budget request for the 2013 biennium.

2013 Biennium Goals

During the interim the LFC met with the agency to select critical goals and performance measurements for the legislature to consider during the appropriation process. The identified critical goals are:

- Continue and if possible extend the library's statewide e-content purchase programs
- Continue to digitize the legacy print state publications collection for on-line access
- The Natural Resource Information System program will work with geospatial data producers to publish data to the Montana GIS Portal

The executive reduces the budget approximately 1% in the 2013 biennium. General fund decreases 1.5% over the biennium due to the personal services reduction applied by the Governor. The library receives an annual allocation of federal funds from the Institute for Museum and Library Services (IMLS) that is approximately $1.1 million, and represented about 25% of the agency's total funding in the FY 2010 base year. About one-third of the federal funds are used to support library operations and the remaining two-thirds are used for grants and projects. A five year plan developed by the library and approved by the IMLS guides the uses of the federal funds. See the funding section of this narrative for more information on how the federal funds are used in Montana.

The Montana Library Commission acts as the fiscal agent for the Montana Shared Catalog, a cooperative project involving 113 libraries across Montana. These libraries have pooled resources to purchase a library automation system. This project experienced strong growth in the 2011 biennium and projects a biennial budget increase of 3% in the 2013 biennium. This project is funded by a proprietary fund and does not appear in the Agency Budget Comparison table at the beginning of this narrative. However, actual and projected revenues and expenditures for the Montana Shared Catalog are included on a table in the Proprietary Program section later in this narrative. The executive budget proposes to add additional staff to this program in the 2013 biennium.

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following summarizes the plan submitted for this program.

Total 5% Reduction Plan Identified by Agencies, By Division
Included and Not Included in Executive Budget
2013 Biennium

Program/DP Number/Description	FTE	General Fund	% Of Total	State Special Revenue	% Of Total
Montana Library Commission					
Included in Executive Budget					
55004 4% Personal Services Reduction	1.50	$135,668	50.1%	$0	0.0%
Not Included in Executive Budget					
Additional PS Reductions	0.75	$43,386	16.0%	$0	0.0%
Reduce Equipment Budget		$91,650	33.9%	$0	0.0%
Reduce On-line Resources		0	0.0%	80,350	100.0%
Subtotal Not Included in Executive Budget		$135,036	49.9%	$80,350	100.0%
Total Reduction Plan					
Included in Executive Budget		$135,668	50.1%	$0	0.0%
Not Included in Executive Budget		135,036	49.9%	80,350	100.0%
Total Agency Reduction Plan	2.25	$270,704		$80,350	

Narrative Discussion

- Overall, general fund is reduced $270,704 and state special revenue is reduced $80,350
- A total of 2.25 FTE are eliminated (1.50 FTE is included in the 4% personal services reduction in DP 55004). The exact impact of the reduction cannot be determined at the time this narrative was written because the agency had not identified specific positions and indicated it would conduct strategic planning to evaluate its options for reducing one of the agency's projects and services if the 5% plan is implemented
- One half of the annual equipment budget is reduced, saving $91,650. The library would reduce the equipment budget for hardware and software expenditures for the agency's desktop computing environment and server room
- The budget for the creation and dissemination of on-line resources available to users is reduced by $80,350 state special revenue (coal tax shared account) for the biennium. The library would unsubscribe to some of the database resources that have been provided to libraries and state employees, and the budget for digitizing state publications would be reduced. The impact would be that less electronic database resources would be available for library patrons and it would take longer to complete the digitization project

Additional reductions to implement the 5% reduction plan as outlined by the agency that are not in the Governor's budget total $135,036 general fund and $80,350 state special revenue. This represents an additional 2.3% total budget reduction from the Governor's budget.

Funding

The MLC is funded through a combination of general fund, state special revenue, and federal special revenue. General fund supports the interlibrary loan reimbursement program, state aid to libraries throughout Montana, NRIS, and general operations.

Program Funding Table Statewide Library Resources							
Program Funding		Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000	Total General Fund	$ 2,722,517	58.3%	$ 2,721,573	53.0%	$ 2,705,797	65.7%
	01100 General Fund	2,722,517	58.3%	2,721,573	53.0%	2,705,797	65.7%
02000	Total State Special Funds	803,498	17.2%	807,098	15.7%	803,498	19.5%
	02005 Operating-Other State Special	-	-	3,600	0.1%	-	-
	02026 Nris State Special	253,523	5.4%	253,523	4.9%	253,523	6.2%
	02340 Coal Sev. Tax Shared Ssr	549,975	11.8%	549,975	10.7%	549,975	13.4%
03000	Total Federal Special Funds	1,145,593	24.5%	1,608,026	31.3%	608,026	14.8%
	03018 Library Commission	1,115,593	23.9%	1,578,026	30.7%	578,026	14.0%
	03930 Nris Federal Funds	30,000	0.6%	30,000	0.6%	30,000	0.7%
Grand	Total	$ 4,671,608	100.0%	$ 5,136,697	100.0%	$ 4,117,321	100.0%

State special revenue includes funding for the following:

- Coal severance tax shared account partially funds general operations, the periodic database, and library federation grants to assist local libraries in providing basic services
- Assessments from the departments of Fish, Wildlife and Parks, Transportation, Natural Resources and Conservation, Environmental Quality, and the Montana University System partially fund NRIS core services

LFD COMMENT

Coal Tax Shared Account

The coal tax shared revenue account, which receives 5.46% of coal severance tax collections, is statutorily designated for libraries, conservation districts, and the Growth Through Agriculture program (15-35-108(3), MCA). The portion that the legislature allocates for the library is for basic library services for the residents of all counties through library federations and for payment of the costs of participating in regional and national networking. The coal tax shared account also funded a one-time-only $80,000 per year appropriation in the 2011 biennium for a library courier/delivery service pilot project. These expenditures are not continued into the 2013 biennium and are the reason the allocation to the state library decreases between the two biennia. The figure below summarizes the condition of the fund.

Department of Natural Resources and Conservation Coal Tax Shared State Special Revenue FY 2010 through FY 2013					
Item	FY 2010 Actual	FY 2011 Appropriated	FY 2012 Executive Budget	FY 2013 Executive Budget	2013 Biennium Expenditures % of Total
Beginning Balance	$1,333,774	$1,142,275	$1,070,659	$695,889	
Expenditures					
Montana State Library	629,975	630,007	549,975	549,975	17.0%
Natural Resouces & Conservation	1,635,089	1,686,398	2,283,916	2,280,538	70.6%
Agriculture - base	338,523	588,211	398,879	398,832	12.3%
Total Expenditures	2,603,587	2,904,616	3,232,770	3,229,345	100.0%
Revenues	2,412,088	2,833,000	2,858,000	2,906,000	
Ending Fund Balance	$1,142,275	$1,070,659	$695,889	$372,544	

The executive has funded present law budgets and new proposals for the 2013 biennium. The fund is structurally unbalanced as ongoing expenditures exceed ongoing revenues. See the LFD Comment below for more information.

LFD COMMENT

Executive Budget Proposal Causes Annual Budget Deficit in Coal Tax Shared Account

The 2013 biennium executive budget proposes to spend $3.2 million each year from the coal tax shared account while revenues are projected by the Revenue and Transportation Interim Committee (RTIC) to total approximately $2.9 million annually. The projected fund balance at the beginning of FY 2012, together with the projected annual revenue, will carry the proposed expenditures through FY 2013, ending with a balance of approximately $373,000. Beginning July 1, 2012, any unreserved fund balance at the end of each fiscal year must be deposited to the general fund. In the 2015 biennium, if the present trend continues, expenditures will exceed available revenue.

Section 15-35-108, MCA, allocates 5.46% of coal severance tax revenues to the coal tax shared account. By statute the funds are to be allocated by the legislature for provision of basic library services for the residents of all counties through library federations and for payment of the costs of participating in regional and national networking, conservation districts, and the Montana Growth Through Agriculture Act.

Federal funds come primarily from Library Services and Technology Act (LSTA) grants administered through the federal Institute of Museum and Library Services. The annual grant awards have ranged from $953,000 to $1.1 million over the last five years. The grants require a 2:1 match, meaning for every $2 of federal funds, the state must match the grant with $1 non-federal funds. A five-year plan is required for the grant. The federal funds are used for improving collection content and access by other libraries and patrons; for providing leadership, training, and consultation to Montana libraries; increasing partnerships and collaborations among Montana libraries; and expanding services to patrons with visual, physical, or reading disabilities.

LFD COMMENT

LSTA grants are received each year, but can be spent over two federal years. Federal years begin in October rather than July. As a result, a LSTA grant received in FY 2011 can be spent in FY 2011, FY 2012, and the first three months of FY 2013. Previous legislatures have appropriated LSTA grants and projects as a biennial appropriation to align the funding with the expenditures in the first year. The figure below illustrates these changes for the current biennium.

Montana Library Commission
Library Services and Technology Act Funding
2013 Biennium Present Law Adjustments

Budget Level	FY 2010 Base Actual	FY 2011 Approp	FY 2012 PL Adjustment	FY 2012 Total Budget	FY 2013 PL Adjustment	FY 2013 Total Budget
State Library Operations	$408,026	$385,926	$0	$408,026	$0	$408,026
LSTA Grants/Projects*	737,567	644,229	462,433	1,200,000	-537,567	200,000
Total Costs	$1,145,593	$1,030,155	$462,433	$1,608,026	-$537,567	$608,026

*The executive proposes the $1.4 million LSTA grant funds be established as a restricted, biennial appropriation for the 2013 biennium

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	2,722,517	2,722,517	5,445,034	100.33%	4,671,608	4,671,608	9,343,216	100.9
Statewide PL Adjustments	66,358	50,646	117,004	2.16%	(275,166)	(290,876)	(566,042)	(6.12
Other PL Adjustments	500	500	1,000	0.02%	804,457	(195,545)	608,912	6.5
New Proposals	(67,802)	(67,866)	(135,668)	(2.50%)	(64,202)	(67,866)	(132,068)	(1.43
Total Budget	**$2,721,573**	**$2,705,797**	**$5,427,370**		**$5,136,697**	**$4,117,321**	**$9,254,018**	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					(182,684)					(181,07
Vacancy Savings					(75,143)					(75,20
Inflation/Deflation					(4,507)					(4,40
Fixed Costs					(12,832)					(30,18
Total Statewide Present Law Adjustments		**$66,358**	**$0**	**($341,524)**	**($275,166)**		**$50,646**	**$0**	**($341,522)**	**($290,87**
DP 1 - LSTA GRANTS (Restricted/Biennial)	0.00	0	0	803,957	803,957	0.00	0	0	(196,045)	(196,04
DP 2 - STANDARD COST ADJUSTMENTS	0.00	500	0	0	500	0.00	500	0	0	5
Total Other Present Law Adjustments	**0.00**	**$500**	**$0**	**$803,957**	**$804,457**	**0.00**	**$500**	**$0**	**($196,045)**	**($195,54**
Grand Total All Present Law Adjustments	**0.00**	**$66,858**	**$0**	**$462,433**	**$529,291**	**0.00**	**$51,146**	**$0**	**($537,567)**	**($486,42**

Agency Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- **Pay Plan Exceptions** – The agency did not utilize pay plan exceptions to address pay issues.
- **Program Specific Obstacles** – Two positions that required a combination of library and IT experience were difficult to recruit due to low salaries offered by the agency.
- **Vacancy** – The agency did not have any occupations with high turnover or vacancies.
- **Legislatively Applied Vacancy Savings** – The agency had to keep two vacant positions open all year in order to meet vacancy savings cuts in the 2011 biennium budget. A library technician position for the talking book library and a natural resources librarian position were the positions held open to meet vacancy savings.
- **Pay/Position Changes** – There were no unusual pay adjustments in FY 2010.
- **Retirements** – MLC has 9 employees eligible for full retirement in the 2013 biennium. The total compensated absence liability for these employees is anticipated to be approximately $145,000.

DP 1 - LSTA Grants (Restricted/Biennial) - The executive budget increases the federal authority to spend estimated Library Services and Technology Act (LSTA) grant awards and realign the biennial appropriation of the awards into the first year of the biennium, resulting in a smaller adjustment in FY 2013. The executive budget proposes the LSTA grants totaling $1.4 million for the 2013 biennium be established as a restricted, biennial appropriation.

DP 2 – Standard Cost Adjustments - This decision package reestablishes zero-based insurance costs for talking book library volunteers insurance at $500 each year of the 2013 biennium. In addition, funds for the statewide interlibrary resource-sharing program (formerly the interlibrary loan reimbursement program) are recategorized as operating costs rather than grants. There is no additional funding requested for the recategorization of expenditures.

LFD COMMENT

HB 61 passed by the 2009 Legislature established the statewide interlibrary resource-sharing program in the state library. This program replaces the former state interlibrary loan reimbursement program. The purpose of the newly created program is to administer funds appropriated by the legislature to support and facilitate resource-sharing among libraries in Montana. The legislature appropriated $197,771 general fund per year for the former interlibrary loan reimbursement program in the state library's base appropriation. The same amount was used in FY 2010 for the new statewide interlibrary resource-sharing program, and this amount is again included in the executive budget for the 2013 biennium.

Two resource sharing tools that were identified by the library to provide the most benefit for Montanans as they use their local libraries were the Montana Shared Catalog and statewide group access contract with the Online Computer Library Center (OCLC) contract. The $197,771 is divided evenly between these two resource sharing tools.

New Proposals

The "New Proposals" table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals

	Fiscal 2012					Fiscal 2013				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 4 - CONTINUING EDUCATION & CERTIFICATION Biennial/OTO										
01	0.00	0	3,600	0	3,600	0.00	0	0	0	0
DP 55004 - 4% PERSONAL SERVICES REDUCTION										
01	(1.50)	(67,802)	0	0	(67,802)	(1.50)	(67,866)	0	0	(67,866)
Total	**(1.50)**	**($67,802)**	**$3,600**	**$0**	**($64,202)**	**(1.50)**	**($67,866)**	**$0**	**$0**	**($67,866)**

DP 4 – Continuing Education & Certification Biennial/OTO - Continuing Education and Certification (Biennial/OTO) – The executive budget increases spending authority in the state special revenue account to allow the Montana State Library to spend the current balance of its continuing education and certification account on training and certification activities. Montana State Library has changed this program and no longer charges the fee. The executive budget requests this as a biennial, one-time only appropriation.

DP 55004 - 4% Personal Services Reduction - The executive recommends a 4% reduction of personal services funded with general fund. The reduction includes the permanent reduction of FTE associated with positions vacant when budgets were developed.

LFD COMMENT

Elimination of Positions

Please see the comments in the 5% Plan Reduction section of this narrative

Proprietary Program Description
The Montana Shared Catalog is a cooperative project involving 113 libraries. Public, school, academic, medical, and other special libraries have pooled resources to purchase a library automation system. Members' benefits include shared expertise and the ability to provide enhanced service to library customers. The Montana State Library became the fiscal agent for the Shared Catalog in FY 2008.

The Montana Shared Catalog is funded with enterprise type proprietary funds. Because the proprietary funds do not require an appropriation, they are not typically included in appropriation tables. The source of the funding is the member fees paid by the libraries to belong to the Montana Shared Catalog. State support is not appropriated to the proprietary fund.

Proprietary Revenues and Expenses
The Shared Catalog members pay membership dues that are used to pay operating expenses. There are approximately 113 member libraries that pay membership fees totaling about $320,000 per year. Expenditures include payment of required fees for software licensing, user interface, and indexing to make the system run; payment for required yearly catalog and director station maintenance; a travel budget that includes meetings twice a year to make decisions on direction of the shared catalog and conference attendance; training to new library members as well as ongoing training to current members; and equipment replacement. The program is reducing the fund balance in this program and intends to maintain an $80,000 fund balance after FY 2013.

Proprietary Rate Explanation
In accord with the written agreement each participating Montana Shared Catalog (MSC) library signs, annual fees are assessed of each library established on the basis of a membership-approved cost formula. The goal of the cost formula is to distribute MSC annual operational costs as fairly and evenly as possible based on the following:

- The individual library's titles count
- Patron count
- Circulation count
- Equal share contribution

Libraries that fall below a set threshold in their title counts and patron counts receive a fixed discount in accord with criteria set forth in the cost formula.

2013 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06021	MT Shared Catalog	51150	State Library Commission	MT State Library

	Actual FY08	Actual FY09	Actual FY10	Budgeted FY11	Budgeted FY12	Budgeted FY13
Operating Revenues:						
Other Operating Revenues	47,956	196,390	278,207	176,267	176,267	176,267
Total Operating Revenue	47,956	196,390	278,207	176,267	176,267	176,267
Operating Expenses:						
Personal Services	-	12,637	22,365	60,326	63,028	62,896
Other Operating Expenses	47,956	183,753	254,607	138,824	155,761	165,775
Equipment Expenses			44,369			
Total Operating Expenses	47,956	196,390	321,342	199,150	218,789	228,671
Operating Income (Loss)	-	-	**(43,135)**	**(22,883)**	**(42,522)**	**(52,404)**
Total Net Assets- July 1 - As Restated		-	240,586	197,451	174,568	132,046
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	-	-	240,586	197,451	174,568	132,046
Net Assets- June 30	-	-	**197,451**	**174,568**	**132,046**	**79,642**
60 days of expenses (Total Operating Expenses divided by 6)	7,993	32,732	53,557	33,192	36,465	38,112

Requested Rates for Enterprise Funds
Fee/Rate Information

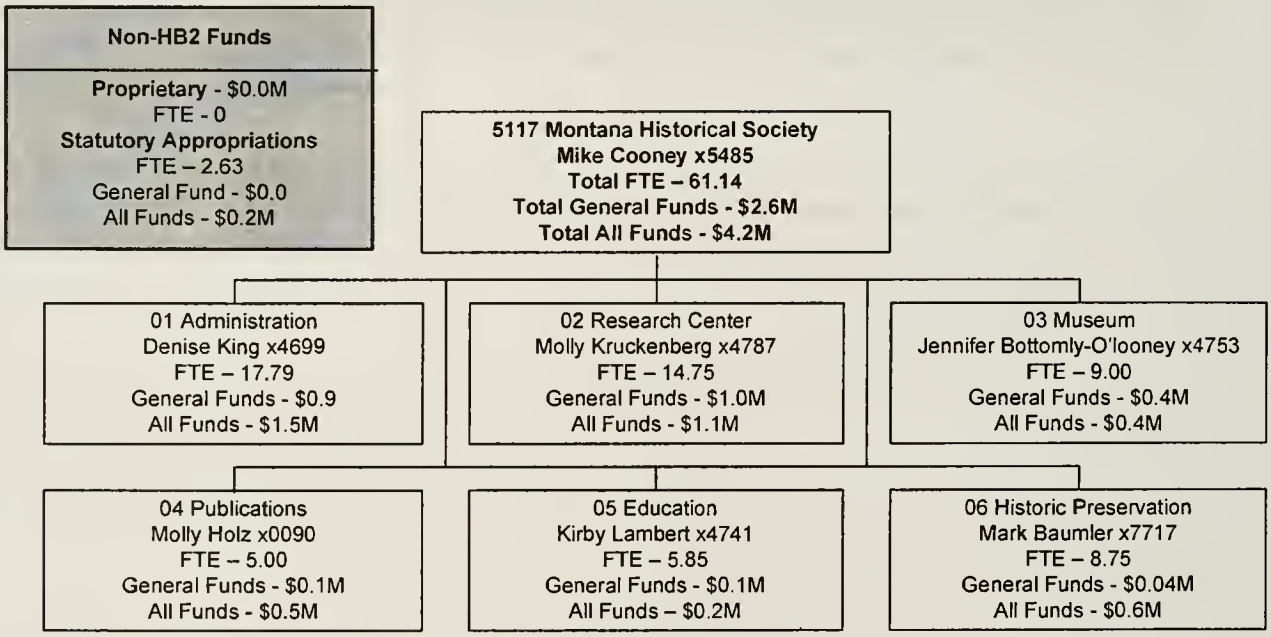
In accord with the written agreement each participating Montana Shared Catalog (MSC) library signs upon joining this library consortium, annual fees assessed each library are established on the basis of a membership-approved cost formula. The goal of the cost formula is to distribute MSC annual operational costs as fairly and evenly as possible based on the following: the individual library's titles count (formula weighting=30%), patron count (formula weighting=30%), circulation count (formula weighting=10%), and an equal share contribution (formula weighting=30%). Libraries which fall below a set threshold in their title counts and patron counts receive a fixed discount in accord with criteria set forth in the cost formula.

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	61.14	61.14	59.83	59.83	61.14	59.83	(1.31)	(2.14%
Personal Services	2,814,802	3,109,826	3,136,677	3,138,552	5,924,628	6,275,229	350,601	5.92
Operating Expenses	1,242,132	1,277,968	1,277,387	1,251,843	2,520,100	2,529,230	9,130	0.36
Equipment & Intangible Assets	6,954	29,711	3,954	3,954	36,665	7,908	(28,757)	(78.43%
Grants	88,389	77,000	88,389	88,389	165,389	176,778	11,389	6.89
Transfers	50,503	50,503	50,503	50,503	101,006	101,006	0	0.00
Total Costs	**$4,202,780**	**$4,545,008**	**$4,556,910**	**$4,533,241**	**$8,747,788**	**$9,090,151**	**$342,363**	**3.91**
General Fund	2,641,116	2,761,337	2,862,024	2,835,068	5,402,453	5,697,092	294,639	5.45
State Special	90,795	139,710	91,082	91,082	230,505	182,164	(48,341)	(20.97%
Federal Special	659,333	671,859	760,618	765,318	1,331,192	1,525,936	194,744	14.63
Other	811,536	972,102	843,186	841,773	1,783,638	1,684,959	(98,679)	(5.53%
Total Funds	**$4,202,780**	**$4,545,008**	**$4,556,910**	**$4,533,241**	**$8,747,788**	**$9,090,151**	**$342,363**	**3.91**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

The Montana Historical Society (MHS), authorized by Title 22-3-101, MCA, exists for the use, learning, culture, and enjoyment of the citizens of, and visitors to, the State of Montana. MHS acquires, preserves, and protects historical records, art, documents, photographs, museum objects, historical places, sites, and monuments. MHS maintains a historical museum and a library and archives; provides educational programs and services for teachers and the general public; and, publishes the state historical magazine, press books, and newsletter. MHS also administers the preservation and antiquities acts; supports commissions with state historical orientation; and, provides technical assistance to all Montana museums, historical societies, preservation programs, and owners of historic resources.

Agency Highlights

Montana Historical Society Major Budget Highlights
◆ The executive budget proposes to increase the budget 3.9%, primarily due to statewide present law adjustments ◆ The executive budget reduces general funded personal services costs 4% each year of the 2013 biennium, including the elimination of 1.31 FTE positions ◆ The executive budget proposes to reduce general fund budgets $126,000 in the 2013 biennium as part of the 5% reduction plan, but offsets $21,400 of the general fund reduction with increased proprietary fund authority ◆ The executive budget includes a one-time-only request for $16,000 general fund for a physical and structural evaluation of the Original Governor's Mansion
Legislative Action Issues
◆ Lodging facility use tax funding for MHS relies upon goodwill between executive and legislative branches

Agency Discussion

Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the legislature may wish to review the following:

- Goals, objectives and year-to-date outcomes from the 2011 biennium.
- Critical agency goals, objectives, and anticipated outcomes and their correlation to the executive's budget request for the 2013 biennium.

2013 Biennium Goals

During the interim the LFC met with the agency to select critical goals and performance measurements for the legislature to consider during the appropriation process. The identified critical goals are:

- Increased delivery of services and products to rural Montana towns, museums, and libraries
- Planning and executing a capital and endowment campaign for the Montana Heritage Center

Agency Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- **Labor Market Experience** – Of recent positions that have been filled, there were many minimally qualified applicants, approximately 50%. Employment offers are being rejected because of low wages. This occurred in approximately 25% of the hiring offers. Professional positions within the agency experience very little turnover. MHS employees who have received training at MHS have left for better paying positions out of state.
- **Pay Philosophy** – The agency pay philosophy for the 2013 biennium is dependent on the agency budget and the pay plan approved by the legislature and the collective bargaining agreement. During the 2011 biennium, new hires to state government at MHS were generally started at entry level pay bands to maintain internal equity.

- **Obstacles** – Insufficient time for cross training of employees due to increased workload of current employees caused by fewer staff, several programs in the agency have specialized positions that require advanced degrees and the applicant pool for these positions is limited (see program narratives).

Agency Overview

The 2013 biennium HB 2 budget proposal for the Montana Historical Society increases 3.9% from the 2011 biennium. The executive proposal increases the budget $342,363 in the 2013 biennium with most of this increase in personal services. The executive budget funds the biennial increase 61% from general fund, 30% from federal special revenue, and 9% from proprietary funds, which is approximately the percentage of overall funding for the agency.

In addition to HB 2 appropriations, the Montana Historical Society has two statutory appropriations 1) 1% of the lodging facility use tax for the installation or maintenance of roadside historical signs and historical sites; and 2) Lewis and Clark bicentennial license plate revenue for projects related to Lewis and Clark. Since 2003 the society has received an annual appropriation transfer from the Department of Commerce of lodging use facility taxes from its statutory appropriation, and also receives private donations. In FY 2010, the statutory appropriations and the lodging facility tax transfer funds totaled $638,000, or 15% of the FY 2010 operating budget. The statutory appropriations and the appropriation transfer are not included in the HB 2 budget base or the agency budget comparison table at the beginning of this narrative.

In FY 2010, the MHS used $128,324 of the lodging facility use taxes to fund personal services costs for positions budgeted in HB 2 from general fund. Rather than revert the full amount of offset general fund, the agency used approximately $80,000 to backfill proprietary fund authority. The executive budget re-funds the HB 2 positions with general fund in the 2013 biennium. See the LFD Issue later in this agency narrative for more discussion and legislative options on the lodging use facility tax funding.

Common Purpose Decision Packages

The following groups of decision packages address common purposes that cross program lines within the agency. The legislature may wish to examine and/or act on the decision packages as a group.

DP55140-5% Mandated General Fund Reduction – The Governor proposes to reduce general fund budgets in three of the MHS programs for a biennial general fund reduction totaling $126,110. The Administration, Research Center, and Historical Preservation Programs are impacted by this reduction. See the individual program narrative for more discussion of the programmatic impact of this proposed reduction. The executive budget offset the $21,400 general fund reduction in the historic preservation program by increasing the proprietary fund appropriation a like amount.

DP55004-4% Personal Services Reduction- The Governor proposes to reduce personal services costs in the Administration and Museum Programs and eliminate 1.31 FTE. The biennial general fund reduction totals $184,525. See the individual program narrative for more discussion of the programmatic impact of this proposed reduction.

Legislative Committee Bills and Recommendations

The Legislative Finance Committee recommends the global adoption of the Governor's 5% reduction plans as a base-less-five-percent motion for the starting point of budget deliberations. See the 5% Reduction Plan section below for more detail.

New Building Project – Montana Heritage Center

The 2005 Legislature authorized $7.5 million bonding authority for a new building for the Montana Historical Society. In the 2009 session, the legislature passed HB 5, which included $30.0 million donation and grant authority to the Department of Administration for the construction of a new historical society building at the 6th Avenue and Roberts Street site. At the time the budget analysis was written, approximately $2.5 million in donations and pledges had been received.

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following table lists the components of the 5% reduction plan for this agency. If the component is included in the executive budget the specific decision package is listed.

Total 5% Reduction Plan Identified by Agencies, By Division
Included and Not Included in Executive Budget
2013 Biennium

Program/DP Number/Description	FTE	General Fund	% Of Total	State Special Revenue	% Of Total
Administration Program (01)					
Included in Executive Budget					
55004 4% Personal Services Reduction	0.36	$29,871	9.2%	$0	0.0%
55410 5% General Fund Reduction		44,290	13.7%	0	0.0%
Subtotal Included in Executive Budget		$74,161	22.9%	$0	0.0%
Total Administration Program		$74,161	22.9%	$0	0.0%
Research Center (02)					
Included in Executive Budget					
55140 5% General Fund Reduction		$60,420	18.7%	$0	0.0%
Total Research Center		$60,420	18.7%	$0	0.0%
Museum Program (03)					
Included in Executive Budget					
55004 4% Personal Services Reduction	0.95	$154,654	47.8%	$0	0.0%
Not Included in Executive Budget					
Reduce unspecified operating expenses		$0	0.0%	$2,800	30.8%
Total Museum Program		$154,654	47.8%	$2,800	30.8%
Education Program (05)					
Not Included in Executive Budget					
Reduce unspecified operating expenses		$12,844	4.0%	$6,280	69.2%
Total Education Program		$12,844	4.0%	$6,280	69.2%
Historic Preservation Program (06)					
Included in Executive Budget					
55140 5% General Fund Reduction		$21,400	6.6%	$0	0.0%
Total Historic Preservation Program		$21,400	6.6%	$0	0.0%
Total Reduction Plan					
Included in Executive Budget		$310,635	96.0%	$0	0.0%
Not Included in Executive Budget		12,844	4.0%	9,080	100.0%
Total Agency Reduction Plan	1.31	$323,479		$9,080	
Agency 5% Reduction Target		$262,704		$9,080	
Reduction Plan Exceeds (Less Than) Target		$60,775		$0	

Narrative Discussion

The 5% reduction plan as submitted by the Montana Historical Society reduces general fund by $262,704 and state special revenue by $9,080 in the 2013 biennium. This amount equals 5% of the MHS general fund budget base. The executive budget reduces the budget an additional $47,931. With the additional reduction included in the executive budget, the total reduction for MHS equals 6.1%.

The state special revenue 5% reduction included in the agency's 5% reduction plan is not included in the executive budget. The agency would reduce operating expenses in the Museum and Education Programs a total of $9,080 for the biennium in the 5% plan. Additionally, the agency included a $12,844 general fund reduction in operating expenses in the education program that was not included in the executive budget.

If the legislature adopts the 5% base reduction as a global motion, it may wish to adjust the budget proposal to conform to the 5% reduction amount.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding
2013 Biennium Budget

Agency Program	General Fund	State Spec.	Fed Spec.	Proprietary	Grand Total	Total %
01 Administration Program	$ 1,870,394	$ 180,816	$ 201,636	$ 719,104	$ 2,971,950	32.69%
02 Research Center	2,010,162	-	-	139,308	2,149,470	23.65%
03 Museum Program	888,886	1,348	-	25,262	915,496	10.07%
04 Publications Program	281,873	-	-	699,757	981,630	10.80%
05 Education Program	584,479	-	-	68,154	652,633	7.18%
06 Historic Preservation Program	61,298	-	1,324,300	33,374	1,418,972	15.61%
Grand Total	$ 5,697,092.00	$ 182,164.00	$ 1,525,936.00	$ 1,684,959.00	$ 9,090,151.00	100.00%

As shown in the table, the proposed MHS HB 2 budget is supported through a combination of general fund, state and federal special revenues, and proprietary funds. MHS proprietary funds are generated through sales of *Montana, The Magazine of Western History*, books, and merchandise in the museum store and Research Center. Unlike other proprietary funds that have a rate approved by the legislature, MHS proprietary funds are appropriated by the legislature.

LFD COMMENT

The Montana Historical Society is also funded from non-HB2 sources, including statutory appropriations and lodging facility use tax revenue transferred from the Department of Commerce. Statutory appropriations are discussed later in the next section and the lodging facility use tax funding is discussed in the Agency Issues section of this agency narrative.

Statutory Appropriations

The following table shows the total statutory appropriations associated with this agency. Because statutory appropriations do not require reauthorization each biennium, they do not appear in HB 2 and are not routinely examined by the legislature. The table is provided so that the legislature can get a more complete picture of agency operations and associated policy.

As appropriate, LFD staff has segregated the statutory appropriations into two general categories: 1) those where the agency primarily acts in an administrative capacity and the appropriations consequently do not relate directly to agency operations; and 2) those that have a more direct bearing on the mission and operations of the agency.

Statutory Appropriations Montana Historical Society					
Purpose	MCA #	Fund Source	Fiscal 2010	Fiscal 2012	Fiscal 2013
Direct Bearing on Agency Operations					
Lewis and Clark license plates	90-1-115	SSR	$1,440	$1,440	$1,440
Lodging facility use tax (1%/Sites & Signs)	15-65-121	SSR	208,412	191,510	191,844
Total Statutory Appropriations			$209,852	$192,950	$193,284

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	2,641,116	2,641,116	5,282,232	92.72%	4,202,780	4,202,780	8,405,560	92.47%
Statewide PL Adjustments	376,199	349,296	725,495	12.73%	498,721	475,105	973,826	10.71%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	(155,291)	(155,344)	(310,635)	(5.45%)	(144,591)	(144,644)	(289,235)	(3.18%)
Total Budget	**$2,862,024**	**$2,835,068**	**$5,697,092**		**$4,556,910**	**$4,533,241**	**$9,090,151**	

Agency Issues

LFD ISSUE Lodging Facility Use Taxes Funding

The Department of Commerce (Commerce) by statute receives 67.5% of lodging facility use taxes to support tourism in the state. In the 2011 biennium this allocation is estimated to total $22.8 million. Over the past several biennia the legislature has requested that Commerce use a portion of its statutorily appropriated lodging facility use taxes to fund historical interpretation and the Scriver collection costs at the Montana Historical Society. For the 2011 biennium, the Montana Historical Society and Commerce signed a memorandum of understanding (MOU) outlining the amount of lodging facility use tax Commerce would transfer. The amount for FY 2010 was $468,611 and in FY 2011 the transfer amount was $482,669. In FY 2010, Commerce transferred MHS $468,611 from the lodging facility use tax (or about 1.6% of the total lodging facility use taxes) and supported a portion of personal services and operating expenditures in the Administration, Research Center, Museum, and Education Programs at the Montana Historical Society. Although Commerce has transferred these funds in previous years, compliance with legislative intent is voluntary on the part of Commerce as there is no statute or appropriation requiring the transfer. The legislature may wish to determine if it wants to make the lodging facility use taxes for historical interpretation and the Scriver collections costs permanent or continue to rely upon the executive branch to comply with historical legislative intent.

LFD ISSUE CONT.

The following table shows the amount of lodging facility use taxes expended by MHS each yea since FY 2003. Please note that the table does not include the direct statutory appropriatio received by MHS for the Sites and Signs Program, which totals 1% of the lodging facility tax.

Lodging Facility Use Tax Expenditures
Montana Historical Society
FY 2003 - FY 2013

FY	Administration	Research Center	Museum	Education	Total
2003	$110,799	$0	$201,476	$0	$312,275
2004	67,718	22,757	352,297	0	$442,772
2005	28,207	22,874	372,327	0	$423,408
2006	22,694	24,971	381,555	0	$429,220
2007	60,755	26,589	323,296	0	$410,640
2008	188,283	0	190,931	74,953	$454,167
2009	25,544	4,822	291,972	82,172	$404,510
2010	22,691	38,959	293,810	72,778	$428,238
Total	$526,691	$140,972	$2,407,664	$229,903	$3,305,230

Source: Data compiled by Legislative Fiscal Division from SABHRS records

In previous years the legislature has used a variety o techniques to express its intent for the transfer of th lodging facility use tax to the MHS, including a HB 2 appropriation, a HB 2 language appropriation, an legislative intent included in the LFD narrative tha accompanies HB 2. All of these techniques wer ultimately deemed inappropriate by the legislativ legal staff. In the 2009 session, the Join Appropriations Subcommittee on Educatio recommended a statutory change to the allocation o the lodging facility use tax that would decrease th percentage for Commerce and increase the percentag for MHS. This statutory change was originall included in the HB 2 companion bill (HB 676), but the proposed statutory change was eventually deleted. For the 2011 biennium, there is a memorandum of understandin (MOU) between Commerce and MHS that outlines the amount of funding Commerce will transfer to MHS to support th historical interpretation and Scriver collection costs. The MOU also states that the MOU would be reviewed an renegotiated on a biennial basis prior to submission of budget requests by the agencies to the Governor's Office o Budget and Program Planning. At the time this narrative was written, there is a new MOU in place for the 201 biennium, with transfer amounts estimated at $476,536 for FY 2012 and $490,075 for FY 2013.

The legislature expects the agency to provide these services, but has not implemented an enforceable funding source fo the services. Both the Montana Historical Society and the legislature face a budgetary risk by continuing to rely upo temporary and/or informal agreements to provide the lodging facility use tax funding to the MHS. As stated, the agenc uses these funds for historical interpretation and maintaining the Scriver collection. These are ongoing functions at th MHS. If, in the future, the lodging facility use taxes are not made available for this purpose, the agency would be unabl to provide the services without an appropriation from another source.

Options

- Request a committee bill to change the 67.5% of lodging facility use tax statutorily appropriated to Commerce t 64.5% and reallocate the funds to support MHS historical interpretation and Scriver collection costs. Th committee bill would increase the funding percentage to MHS to 2.6%.
- Continue to rely upon the executive branch to transfer lodging facility use taxes from Commerce to MHS.

Program Budget Comparison

The following table summarizes the total executive budget for the program by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	17.79	17.79	17.43	17.43	17.79	17.43	(0.36)	(2.02%)
Personal Services	938,392	968,556	946,143	948,238	1,906,948	1,894,381	(12,567)	(0.66%)
Operating Expenses	542,692	678,623	556,264	521,305	1,221,315	1,077,569	(143,746)	(11.77%)
Equipment & Intangible Assets	0	12,750	0	0	12,750	0	(12,750)	(100.00%)
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	**$1,481,084**	**$1,659,929**	**$1,502,407**	**$1,469,543**	**$3,141,013**	**$2,971,950**	**($169,063)**	**(5.38%)**
General Fund	930,593	1,010,813	951,629	918,765	1,941,406	1,870,394	(71,012)	(3.66%)
State Special	90,121	114,710	90,408	90,408	204,831	180,816	(24,015)	(11.72%)
Federal Special	100,818	107,865	100,818	100,818	208,683	201,636	(7,047)	(3.38%)
Other	359,552	426,541	359,552	359,552	786,093	719,104	(66,989)	(8.52%)
Total Funds	**$1,481,084**	**$1,659,929**	**$1,502,407**	**$1,469,543**	**$3,141,013**	**$2,971,950**	**($169,063)**	**(5.38%)**

Program Description

The Administration Program provides supervision, administration, and coordination of the six programs in the Montana Historical Society. Program staff is responsible for the management, planning, direction, and leadership of the society. Activities include public information, payroll/personnel, fund raising, financial reporting, business management, security, building management, community outreach, and the society store.

Program Highlights

Administration Program
Major Budget Highlights

- The executive budget decreases this program's budget 5.4% in the 2013 biennium
- The executive budget reduces general funded personal services costs 4% each year of the 2013 biennium, including the elimination of 0.36 FTE positions
- The executive budget reduces general fund $44,290 as part of the 5% general fund reduction. Staff travel and equipment expenditures would be reduced in the executive budget

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following summarizes the plan submitted for this program.

- The Governor's budget reduces general fund in this program $74,161 in the 2013 biennium
- The reduction includes the 4% personal services reduction and the 5% general fund reduction
- For discussion of how the reduction will be implemented in the program, see the decision package descriptions for DPs 55004 and 55410 in the New Proposal section of this narrative

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table Administration Program							
Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000 Total General Fund	$ 930,593	62.8%	$ 951,629	63.3%	$ 918,765	62.5%
01100 General Fund	930,593	62.8%	951,629	63.3%	918,765	62.5%
02000 Total State Special Funds	90,121	6.1%	90,408	6.0%	90,408	6.2%
02041 Mt Hist. Society Donations	90,121	6.1%	90,408	6.0%	90,408	6.2%
03000 Total Federal Special Funds	100,818	6.8%	100,818	6.7%	100,818	6.9%
03021 Historic Sites Preservation	100,818	6.8%	100,818	6.7%	100,818	6.9%
06000 Total Proprietary Funds	359,552	24.3%	359,552	23.9%	359,552	24.5%
06071 Merchandise - Historical Soc	310,170	20.9%	310,170	20.6%	310,170	21.1%
06073 Historical Society Management	49,382	3.3%	49,382	3.3%	49,382	3.4%
Grand Total	$ 1,481,084	100.0%	$ 1,502,407	100.0%	$ 1,469,543	100.0%

The program is funded with a combination of general fund, state special revenue funds from membership fees and donations, federal funds generated through indirect cost recoveries, and proprietary funds from museum entrance fees and merchandise sales. The various funding sources for the administration program are proportionate to overall agency funding.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	930,593	930,593	1,861,186	99.51%	1,481,084	1,481,084	2,962,168	99.67%
Statewide PL Adjustments	58,511	24,858	83,369	4.46%	58,798	25,145	83,943	2.82%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	(37,475)	(36,686)	(74,161)	(3.96%)	(37,475)	(36,686)	(74,161)	(2.50%)
Total Budget	**$951,629**	**$918,765**	**$1,870,394**		**$1,502,407**	**$1,469,543**	**$2,971,950**	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments

	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					63,142					64,502
Vacancy Savings					(40,061)					(40,115)
Inflation/Deflation					795					802
Fixed Costs					34,922					(44)
Total Statewide Present Law Adjustments		**$58,511**	**$287**	**$0**	**$58,798**		**$24,858**	**$287**	**$0**	**$25,145**
Grand Total All Present Law Adjustments	**0.00**	**$58,511**	**$287**	**$0**	**$58,798**	**0.00**	**$24,858**	**$287**	**$0**	**$25,145**

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- **Pay Plan Exceptions** – The program does not have any employee groups with exceptions to the agency's pay plan rules.
- **Program Specific Obstacles** – The program does not face program specific obstacles in following the agency's pay plan rules.
- **Vacancy** – The program does not have occupations with high turnover or high vacancies.
- **Legislatively Applied Vacancy Savings** – The program held open an electronic repair technician position to address the 7% vacancy savings applied by the 2009 Legislature.
- **Pay/Position Changes** – There were no unusual pay adjustments for this program in FY 2010.
- **Retirements** – The program has five employees eligible for full retirement in the 2013 biennium, approximately 28% of the FTE, with an estimated compensated absence liability of $13,343 as of mid-August 2010.

New Proposals

The "New Proposals" table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals

	Fiscal 2012					Fiscal 2013				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 55004 - 4% Personal Services Reduction										
01	(0.36)	(15,330)	0	0	(15,330)	(0.36)	(14,541)	0	0	(14,541)
DP 55140 - 5% General Fund Reduction										
01	0.00	(22,145)	0	0	(22,145)	0.00	(22,145)	0	0	(22,145)
Total	**(0.36)**	**($37,475)**	**$0**	**$0**	**($37,475)**	**(0.36)**	**($36,686)**	**$0**	**$0**	**($36,686)**

DP 55004 - 4% Personal Services Reduction - The Governor has included a 4% reduction in general fund personal services budgets as part of his budget recommendations. This decision package reduces the Administrative Program by $15,330 in FY 2012 and $14,541 in FY 2013 to implement the budget reduction. The reduction includes the elimination of 0.36 FTE.

LFD COMMENT

The agency did not specify in the 5% reduction plan the position or the function that would be reduced or eliminated. Without specific information, the impact of the reduction cannot be determined.

DP 55140 - 5% General Fund Reduction - The executive budget reduces the Administrative Program by $22,145 in each year of the 2013 biennium as part of the compliance for 17-7-140, MCA, reductions. The reductions include staff travel to board meetings of $2,945 and $19,200 for computer replacement.

LFD COMMENT

The agency indicated that the impact of this reduction is that computer equipment at the MHS would move from a 4 year replacement cycle to a 5 year replacement cycle, which is the new standard for state agencies promulgated by the Governor. In addition, eliminating staff travel to non-Helena board of trustee meetings will result in only written reports to the board and program staff not being present to answer questions from board members or the public.

Program Budget Comparison

The following table summarizes the total executive budget for the program by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	14.75	14.75	14.75	14.75	14.75	14.75	0.00	0.00%
Personal Services	772,924	765,215	792,443	792,509	1,538,139	1,584,952	46,813	3.04%
Operating Expenses	293,602	286,603	277,732	278,878	580,205	556,610	(23,595)	(4.07%)
Equipment & Intangible Assets	6,954	16,961	3,954	3,954	23,915	7,908	(16,007)	(66.93%)
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	**$1,073,480**	**$1,068,779**	**$1,074,129**	**$1,075,341**	**$2,142,259**	**$2,149,470**	**$7,211**	**0.34%**
General Fund	1,003,826	974,705	1,004,475	1,005,687	1,978,531	2,010,162	31,631	1.60%
State Special	0	0	0	0	0	0	0	n/a
Federal Special	0	0	0	0	0	0	0	n/a
Other	69,654	94,074	69,654	69,654	163,728	139,308	(24,420)	(14.91%)
Total Funds	**$1,073,480**	**$1,068,779**	**$1,074,129**	**$1,075,341**	**$2,142,259**	**$2,149,470**	**$7,211**	**0.34%**

Program Description

The Research Center Program consists of the library, archives, and photograph archives functions. This program acquires, organizes, preserves, makes accessible to the public, and assists researchers with published materials, historic records and manuscripts, photographs and related media, and oral histories illustrative of the history of Montana and the surrounding region. By statute, this program houses the official archives of state government.

Program Highlights

Research Center
Major Budget Highlights

- The executive budget provides level funding for this program in the 2013 biennium, despite the downward adjustment to reduce general fund 5%
- The executive budget reduces general fund $60,420 as part of the 5% general fund reduction. Microfilming copies of the state's newspapers and subscriptions to journals, books, maps, and other reference materials would be reduced in the executive budget

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following summarizes the plan submitted for this program.

- The Governor's budget reduces general fund in this program $60,420 in the 2013 biennium
- The reduction includes the 5% general fund reduction
- For discussion of how the reduction will be implemented in the program, see the decision package description for DP 55410 in the New Proposal section of this narrative

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table Research Center							
Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000 Total General Fund	$ 1,003,826	93.5%	$ 1,004,475	93.5%	$ 1,005,687	93.5%
01100 General Fund	1,003,826	93.5%	1,004,475	93.5%	1,005,687	93.5%
06000 Total Proprietary Funds	69,654	6.5%	69,654	6.5%	69,654	6.5%
06072 Misc Enterprise-Historical Soc	41,672	3.9%	41,672	3.9%	41,672	3.9%
06076 Mhs Library Enterprise Funds	27,982	2.6%	27,982	2.6%	27,982	2.6%
Grand Total	$ 1,073,480	100.0%	$ 1,074,129	100.0%	$ 1,075,341	100.0%

This program is funded through a combination of general fund and proprietary funds. Proprietary funds are generated through the sale of photographs, photocopies, and fees charged for research time spent by staff on public requests. Funding provided by the library enterprise funds proposed in the executive budget is equal to the FY 2010 base funding of $69,654 per year in the 2013 biennium.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Base Budget	1,003,826	1,003,826	2,007,652	99.88%	1,073,480	1,073,480	2,146,960	99.88%
Statewide PL Adjustments	30,859	32,071	62,930	3.13%	30,859	32,071	62,930	2.93%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	(30,210)	(30,210)	(60,420)	(3 01%)	(30,210)	(30,210)	(60,420)	(2.81%)

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Total Budget	**$1,004,475**	**$1,005,687**	**$2,010,162**		**$1,074,129**	**$1,075,341**	**$2,149,470**	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					52,537					52,60
Vacancy Savings					(33,018)					(33,02
Inflation/Deflation					192					19
Fixed Costs					11,148					12,29
Total Statewide Present Law Adjustments		**$30,859**	**$0**	**$0**	**$30,859**		**$32,071**	**$0**	**$0**	**$32,07**
Grand Total All Present Law Adjustments	**0.00**	**$30,859**	**$0**	**$0**	**$30,859**	**0.00**	**$32,071**	**$0**	**$0**	**$32,07**

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- **Pay Plan Exceptions** - The program does not have any employee groups with exceptions to the agency's pay plan rules.
- **Program Specific Obstacles** - The program has specialized positions - 75% require master's degrees. Due to

the unique services provided in a sparsely populated state there is not a large pool of applicants to draw from as there would be in an urban area.

- **Vacancy** – The Archivist position in this program is difficult to keep filled due to out of state market competition for this specialized position.
- **Legislatively Applied Vacancy Savings** - The program held open a library technician position to address the 7% vacancy savings applied by the 2009 Legislature.
- **Pay/Position Changes** - There were no unusual pay adjustments for this program in FY 2010.
- **Retirements** - The program has five employees eligible for full retirement in the 2013 biennium with an estimated compensated absence liability of $56,627 as of mid-August 2010.

New Proposals

The "New Proposals" table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals	Fiscal 2012						Fiscal 2013				
Program	FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Federal Special	Total Funds
DP 55140 - 5% General Fund Reduction											
02	0.00	(30,210)	0	0	(30,210)		0.00	(30,210)	0	0	(30,210)
Total	**0.00**	**($30,210)**	**$0**	**$0**	**($30,210)**		**0.00**	**($30,210)**	**$0**	**$0**	**($30,210)**

DP 55140 - 5% General Fund Reduction - The executive budget reduces the Research Program $30,210 in each year of the 2013 biennium to continue the 17-7-140, MCA, reductions implemented in the 2011 biennium. The reductions include $21,500 per year for subscriptions to microfilm copies of daily newspapers; $4,000 per year to reduce microfilming of non-daily Montana newspapers; and, $4,710 per year for subscriptions to journals, books, maps, and reference materials.

LFD COMMENT

This reduction was not included in the agency's 5% reduction plan, but was included in the executive budget. If the legislature adopts the 5% base reduction as a global motion, it may wish to exclude this decision package or exclude a decision package in another program.

Program Budget Comparison

The following table summarizes the total executive budget for the program by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	9.00	9.00	8.05	8.05	9.00	8.05	(0.95)	(10.56%)
Personal Services	319,492	399,519	369,069	368,727	719,011	737,796	18,785	2.61%
Operating Expenses	85,985	51,200	88,760	88,940	137,185	177,700	40,515	29.53%
Total Costs	**$405,477**	**$450,719**	**$457,829**	**$457,667**	**$856,196**	**$915,496**	**$59,300**	**6.93%**
General Fund	392,172	360,469	444,524	444,362	752,641	888,886	136,245	18.10%
State Special	674	25,000	674	674	25,674	1,348	(24,326)	(94.75%)
Federal Special	0	0	0	0	0	0	0	n/a
Other	12,631	65,250	12,631	12,631	77,881	25,262	(52,619)	(67.56%)
Total Funds	**$405,477**	**$450,719**	**$457,829**	**$457,667**	**$856,196**	**$915,496**	**$59,300**	**6.93%**

Program Description

The Museum Program collects, preserves, and interprets the history of Montana through its material culture, collecting fine arts and historical, archaeological, and ethnological artifacts from Montana and the general geographic region. The program interprets its collections through exhibits, tours, and traveling exhibits. The program also coordinates with the society's Education Program to orchestrate events, programs, and materials on Montana history for learners of all ages.

Program Highlights

Museum Program
Major Budget Highlights

- The executive budget increases this program's budget 8.8% in the 2013 biennium due primarily to statewide present law adjustments offset by general fund reductions
  - Positions that were funded from non-HB 2 funds in FY 2010 are fully funded in the HB 2 budget
- The executive budget reduces general funded personal services costs 4% each year of the 2013 biennium, including the elimination of 0.95 FTE positions
- The executive budget reduces general fund $44,290 as part of the 5% general fund reduction. Staff travel and equipment expenditures would be reduced in the executive budget
- The executive budget includes a one-time-only request for $16,000 general fund for a physical and structural evaluation of the Original Governor's Mansion

Program Narrative

The Museum Program is funded from numerous sources. Nearly half of the program's FY 2010 budgeted expenditures were from sources authorized outside of HB 2. The funding contained in the Program Budget Comparison table at the beginning of this program narrative contains funding that is authorized from HB 2.

Other funding that supported this program in FY 2010 is listed below, along with the authorization for the funds and the amount expended in FY 2010:

- Lodging Facility Use Tax transfer from Commerce (See LFD Issue in Agency Summary), administrative appropriation, $293,828

- General fund, personal services contingency appropriation transfer from OBPP, $4,497
- Cultural and Aesthetic Project grant, HB 9, $9,719
- Lodging Facility Use Tax/1% Sites and Signs, statutory appropriation, $40,772
- Lewis & Clark License Plates, statutory appropriation, $1,440

The agency used approximately $95,000 of the lodging facility use tax transferred from Commerce to fund HB 2 positions (primarily general fund) in FY 2010, yet only $9,000 of the program general fund appropriation remained unspent at the end of FY 2010. The executive budget funded the positions in this program with general fund in the 2013 biennium.

5% Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following summarizes the plan submitted for this program.

- The Governor's budget reduces general fund in this program $154,654 in the 2013 biennium
- The reduction includes the 4% personal services reduction. A 0.95 FTE would be eliminated in this program
- For discussion of how the reduction will be implemented in the program, see the decision package descriptions for DPs 55004 in the New Proposal section of this narrative
- The agency 5% reduction plan also reduces state special revenue in this program's budget by $2,800 in the 2013 biennium. This reduction reduces funding used to purchase material that allows the agency to process items it has acquired for the collection.

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table
Museum Program

Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000 Total General Fund	$ 392,172	96.7%	$ 444,524	97.1%	$ 444,362	97.1%
01100 General Fund	392,172	96.7%	444,524	97.1%	444,362	97.1%
02000 Total State Special Funds	674	0.2%	674	0.1%	674	0.1%
02045 Orig Gov'S Mansion Restoration	674	0.2%	674	0.1%	674	0.1%
06000 Total Proprietary Funds	12,631	3.1%	12,631	2.8%	12,631	2.8%
06077 Mhs Museum Enterprise Funds	12,631	3.1%	12,631	2.8%	12,631	2.8%
Grand Total	$ 405,477	100.0%	$ 457,829	100.0%	$ 457,667	100.0%

The Museum Program is funded through a combination of general fund, state special revenue from undesignated donations at the Original Governor's Mansion, and proprietary funds generated through the sales of books, copies, photographs, and the rental of traveling exhibits. Funding provided by the museum enterprise funds proposed in the executive budget is equal to the FY 2010 base funding of $12,361 per year in the 2013 biennium.

LFD COMMENT

Museum enterprise fund revenue in FY 2010 was significantly less than the budgeted amount. In FY 2008, the base budget year for FY 2010 and FY 2011, the agency expended the fund balance in this fund that had been accruing for several years. Consequently, the appropriation was set higher than normal. Historically revenue and expenditures in this fund have remained under $25,000 per year since FY 2003.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	392,172	392,172	784,344	88.24%	405,477	405,477	810,954	88.58%
Statewide PL Adjustments	129,258	129,938	259,196	29.16%	129,258	129,938	259,196	28.31%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	(76,906)	(77,748)	(154,654)	(17.40%)	(76,906)	(77,748)	(154,654)	(16.89%)
Total Budget	**$444,524**	**$444,362**	**$888,886**		**$457,829**	**$457,667**	**$915,496**	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					145,067					145,58
Vacancy Savings					(18,584)					(18,60
Inflation/Deflation					20					2
Fixed Costs					2,755					2,93
Total Statewide Present Law Adjustments		**$129,258**	**$0**	**$0**	**$129,258**		**$129,938**	**$0**	**$0**	**$129,93**
Grand Total All Present Law Adjustments	**0.00**	**$129,258**	**$0**	**$0**	**$129,258**	**0.00**	**$129,938**	**$0**	**$0**	**$129,93**

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- **Pay Plan Exceptions** - The program does not have any employee groups with exceptions to the agency's pay plan rules.
- **Program Specific Obstacles** - The program has specialized positions - 70% prefer or require master's degrees. Due to the unique services provided in a sparsely populated state there is not a large pool of applicants to draw from as there would be in an urban area.
- **Vacancy** - The program does not have occupations with high turnover or high vacancies.
- **Legislatively Applied Vacancy Savings** - The program held open a program manager position to address the 7% vacancy savings applied by the 2009 Legislature. The museum curator was assigned additional duties, with a compensating pay adjustment funded within program budget.
- **Pay/Position Changes** - There were no unusual pay adjustments for this program in FY 2010.
- **Retirements** - The program has no employees eligible for full retirement in the 2013 biennium.

New Proposals

The "New Proposals" table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals	Fiscal 2012						Fiscal 2013				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 55004 - 4% Personal Services Reduction										
03	(0.95)	(76,906)	0	0	(76,906)	(0.95)	(77,748)	0	0	(77,748)
Total	**(0.95)**	**($76,906)**	**$0**	**$0**	**($76,906)**	**(0.95)**	**($77,748)**	**$0**	**$0**	**($77,748)**

DP 55004 - 4% Personal Services Reduction - The Governor has included a 4% reduction in general fund personal services budgets as a part of his budget recommendations. This decision package reduces the Museum Program by $76,906 in FY 2012 and $77,748 in FY 2013 to implement the budget reduction. The reduction includes the elimination of 0.95 FTE.

LFD COMMENT

The agency stated in its 5% reduction plan that the consequence of this 0.95 FTE reduction is that the realignment of responsibilities would be necessary, and that issues with backlog and the resulting audit recommendations will be perpetuated. The legislative audits from 2008 and 2010 both contain audit recommendations addressing timely inventorying of the state's historic artifacts. Adjusting the hours the program is available to respond to public inquiries and producing fewer exhibits are two ways to mitigate the impact to constituents and staff suggested by the agency.

Program Budget Comparison

The following table summarizes the total executive budget for the program by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	5.00	5.00	5.00	5.00	5.00	5.00	0.00	0.00%
Personal Services	249,932	265,450	259,667	259,259	515,382	518,926	3,544	0.69%
Operating Expenses	172,896	175,722	180,462	181,236	348,618	361,698	13,080	3.75%
Transfers	50,503	50,503	50,503	50,503	101,006	101,006	0	0.00%
Total Costs	**$473,331**	**$491,675**	**$490,632**	**$490,998**	**$965,006**	**$981,630**	**$16,624**	**1.72%**
General Fund	141,653	142,464	140,047	141,826	284,117	281,873	(2,244)	(0.79%)
State Special	0	0	0	0	0	0	0	n/a
Federal Special	0	0	0	0	0	0	0	n/a
Other	331,678	349,211	350,585	349,172	680,889	699,757	18,868	2.77%
Total Funds	**$473,331**	**$491,675**	**$490,632**	**$490,998**	**$965,006**	**$981,630**	**$16,624**	**1.72%**

Program Description

The Publications Program promotes the study of Montana history and education through lectures, publications, and curriculum materials. The program publishes quarterly editions of the award-winning magazine, *Montana The Magazine of Western History.* It also publishes books under the Montana Historical Society Press imprint.

Program Highlights

Publications Program
Major Budget Highlights

- The executive budget increases 1.7% due entirely to statewide present law adjustments
- The executive budget excludes this program from both the 5% general fund reduction and the 4% personal services reduction

Major LFD Issues

- Program expenditures and proprietary fund revenues are overstated

Program Narrative

Goals and Objectives

2013 Biennium Goal

The Legislative Finance Committee recommends goals and objectives for the Montana Historical Society be reviewed and monitored at the agency level. Please refer to the agency narrative for a discussion of the identified significant goals for the 2013 biennium.

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table Publications Program							
Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000 Total General Fund	$ 141,653	29.9%	$ 140,047	28.5%	$ 141,826	28.9%
01100 General Fund	141,653	29.9%	140,047	28.5%	141,826	28.9%
06000 Total Proprietary Funds	331,678	70.1%	350,585	71.5%	349,172	71.1%
06002 Mhs Publications Enterprise	331,678	70.1%	350,585	71.5%	349,172	71.1%
Grand Total	$ 473,331	100.0%	$ 490,632	100.0%	$ 490,998	100.0%

The program is funded with a combination of general fund and proprietary funds. Proprietary funds are derived from subscription sales for the magazine and sales of books published by the program. General fund pays a portion of 2.00 FTE, the program manager and an editor, involved in publishing *Montana the Magazine of Western History*.

LFD ISSUE

Program Expenditures and Proprietary Revenue are Overstated

For several years, the agency has transferred $50,503 of its general fund appropriation to the program's proprietary fund, which then expends the proprietary fund on program expenditures. Because both the general fund and proprietary funds are appropriated, this results in overstating the actual cost of the program by $50,503 each year, as well as overstating the true revenue to the proprietary fund. The executive budget continues this practice in the 2013 budget proposal. The legislature may wish to direct the agency to properly record its revenues and expenditures and accurately report the financial status of the program.

When the program transfers the $50,503 of general fund to its proprietary fund, this transfer is recorded as a program expense. When it is expended as proprietary funds, it records as a further expense. The transfer process makes the funding of this program more complicated than necessary, is less transparent, and is inappropriate. These expenses could be made directly from the general fund. Enterprise proprietary funds are intended to recover the costs of providing a service external to the organization and funded from user charges. In addition, transferring general fund to a proprietary fund would enable an agency to "save" general fund, because proprietary funds can carry fund balances of a reasonable amount, while general fund appropriations typically expire after one or two years.

Options

- Eliminate the transfer expense and reduce proprietary fund expenditures by $50,503 each year of the biennium
- Fund the executive budget proposal as submitted

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	141,653	141,653	283,306	100.51%	473,331	473,331	946,662	96.44%
Statewide PL Adjustments	(1,606)	173	(1,433)	(0.51%)	17,301	17,667	34,968	3.56%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	**$140,047**	**$141,826**	**$281,873**		**$490,632**	**$490,998**	**$981,630**	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					20,554					20,13
Vacancy Savings					(10,819)					(10,803
Inflation/Deflation					235					23
Fixed Costs					7,331					8,10
Total Statewide Present Law Adjustments		**($1,606)**	**$0**	**$0**	**$17,301**		**$173**	**$0**	**$0**	**$17,66**
Grand Total All Present Law Adjustments	**0.00**	**($1,606)**	**$0**	**$0**	**$17,301**	**0.00**	**$173**	**$0**	**$0**	**$17,66**

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- **Pay Plan Exceptions** - The program does not have any employee groups with exceptions to the agency's pay plan rules.
- **Program Specific Obstacles** - The program has specialized positions - 60% require master's degrees. Due to the unique services provided in a sparsely populated state there is not a large pool of applicants to draw from as there would be in an urban area.
- **Vacancy** - The program does not have occupations with high turnover or high vacancies.
- **Legislatively Applied Vacancy Savings** – The program was fully staffed throughout FY 2010 and did not accrue vacancy savings.
- **Pay/Position Changes** - There were no unusual pay adjustments for this program in FY 2010.
- **Retirements** - The program has one employee eligible for full retirement in the 2013 biennium with an estimated compensated absence liability of $3,764 as of mid-August 2010.

Program Budget Comparison

The following table summarizes the total executive budget for the program by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	5.85	5.85	5.85	5.85	5.85	5.85	0.00	0.00%
Personal Services	126,631	238,765	287,909	287,741	365,396	575,650	210,254	57.54%
Operating Expenses	37,615	12,786	38,471	38,512	50,401	76,983	26,582	52.74%
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	**$164,246**	**$251,551**	**$326,380**	**$326,253**	**$415,797**	**$652,633**	**$236,836**	**56.96%**
General Fund	130,169	218,483	292,303	292,176	348,652	584,479	235,827	67.64%
State Special	0	0	0	0	0	0	0	n/a
Federal Special	0	0	0	0	0	0	0	n/a
Other	34,077	33,068	34,077	34,077	67,145	68,154	1,009	1.50%
Total Funds	**$164,246**	**$251,551**	**$326,380**	**$326,253**	**$415,797**	**$652,633**	**$236,836**	**56.96%**

Program Description

The Education Program is comprised of three primary activities: Outreach and Interpretation, Historic Signs, and the Volunteer Program. The Outreach and Interpretation Program provides educational public programming of all types, both at the society's headquarters and throughout the state, for a wide range of audiences; plans and produces educational publications, curriculum materials, and instructional literature for broad distribution; plans and produces interpretive, place-based publications, articles, brochures, and tours for statewide distribution/implementation; oversees the National Register Sign Program for the State of Montana, producing interpretive signage for eligible structures and sites in all parts of the state; assists in the planning, production, and placement of non-Register signage in all parts of the state; assists in the planning, production, and distribution of interpretive permanent, temporary, and travelling exhibitions; provides reference services to the general public, teachers, students, technical users, and other like-minded institutions and organizations; and, oversees the society's volunteer program, coordinating volunteers and volunteer activities society-wide.

Program Highlights

Education Program
Major Budget Highlights

- The executive budget increases this budget 57% in the 2013 biennium primarily due to increased personal services costs
  - Positions that were funded from non-HB 2 funds in FY 2010 are fully funded in the HB 2 budget
  - General fund that was transferred from this program to other agency programs is restored in the 2013 biennium
  - The program experienced about 30% vacancy savings in terms of hours budgeted versus hours used
- The executive budget excludes this program from both the 5% general fund reduction and the 4% personal services reduction

Program Narrative

Goals and Objectives

2013 Biennium Goal

The Legislative Finance Committee recommends goals and objectives for the Montana Historical Society be reviewed and monitored at the agency level. Please refer to the agency narrative for a discussion of the identified significant goals for the 2013 biennium.

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following summarizes the plan submitted for this program.

- The agency plan reduced operating expenses in this program a total of $9,562 in the 2013 biennium, of which $6,422 is general fund and the remaining $3,140 is state special revenue
- This reduction was not included in the executive budget
- To meet this reduction, the agency would reduce the number of printed interpretive materials that the program produces. These materials are distributed statewide to inform citizens of services offered, to interpret Montana history, and to provide resources for students, teachers, and the general public

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table
Education Program

Program Funding		Base FY2010	% of Base FY2010	Budget FY2012	% of Budget FY2012	Budget FY2013	% of Budget FY2013
01000	Total General Fund	$ 130,169	79.3%	$ 292,303	89.6%	$ 292,176	89.6%
	01100 General Fund	130,169	79.3%	292,303	89.6%	292,176	89.6%
06000	Total Proprietary Funds	34,077	20.7%	34,077	10.4%	34,077	10.4%
	06022 Mhs Education Enterprise Funds	34,077	20.7%	34,077	10.4%	34,077	10.4%
Grand	Total	$ 164,246	100.0%	$ 326,380	100.0%	$ 326,253	100.0%

The executive budget funds this program through a combination of general fund and proprietary funds generated from education enterprises.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category

Budget Item	General Fund: Budget Fiscal 2012	General Fund: Budget Fiscal 2013	General Fund: Biennium Fiscal 12-13	General Fund: Percent of Budget	Total Funds: Budget Fiscal 2012	Total Funds: Budget Fiscal 2013	Total Funds: Biennium Fiscal 12-13	Total Funds: Percent of Budget
Base Budget	130,169	130,169	260,338	44.54%	164,246	164,246	328,492	50.33%
Statewide PL Adjustments	162,134	162,007	324,141	55.46%	162,134	162,007	324,141	49.67%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	**$292,303**	**$292,176**	**$584,479**		**$326,380**	**$326,253**	**$652,633**	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					173,274					173,098
Vacancy Savings					(11,996)					(11,988)
Inflation/Deflation					(104)					(102)
Fixed Costs					960					999
Total Statewide Present Law Adjustments		**$162,134**	**$0**	**$0**	**$162,134**		**$162,007**	**$0**	**$0**	**$162,007**
Grand Total All Present Law Adjustments	**0.00**	**$162,134**	**$0**	**$0**	**$162,134**	**0.00**	**$162,007**	**$0**	**$0**	**$162,007**

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- **Pay Plan Exceptions** - The program does not have any employee groups with exceptions to the agency's pay plan rules.
- **Program Specific Obstacles** - The program has specialized positions - 67% require master's degrees. Due to the unique services provided in a sparsely populated state there is not a large pool of applicants to draw from as there would be in an urban area.
- **Vacancy** - The program does not have occupations with high turnover or high vacancies.
- **Legislatively Applied Vacancy Savings** - The program held open an instructional coordinator position to address the 7% vacancy savings applied by the 2009 Legislature.
- **Pay/Position Changes** - There were no unusual pay adjustments for this program in FY 2010.
- **Retirements** - The program has two employees eligible for full retirement in the 2013 biennium with an estimated compensated absence liability of $10,735 as of mid-August 2010.

LFD COMMENT

Personal services increase significantly in the statewide present law adjustments because the program utilized about $34,000 of lodging facility use tax from the Department of Commerce to offset general funded personal services in FY 2010. In addition, the agency transferred $82,000 general fund from this program to other programs within the agency in FY 2010 and the executive budget restores the general fund in this program in the 2013 biennium. The program also experienced significant vacancy savings in FY 2010.

Program Budget Comparison

The following table summarizes the total executive budget for the program by year, type of expenditure, and source o funding.

Program Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	8 75	8.75	8.75	8.75	8.75	8.75	0.00	0.00%
Personal Services	407,431	472,321	481,446	482,078	879,752	963,524	83,772	9.52%
Operating Expenses	109,342	73,034	135,698	142,972	182,376	278,670	96,294	52.80%
Grants	88,389	77,000	88,389	88,389	165,389	176,778	11,389	6.89%
Total Costs	**$605,162**	**$622,355**	**$705,533**	**$713,439**	**$1,227,517**	**$1,418,972**	**$191,455**	**15.60%**
General Fund	42,703	54,403	29,046	32,252	97,106	61,298	(35,808)	(36.88%)
Federal Special	558,515	563,994	659,800	664,500	1,122,509	1,324,300	201,791	17.98%
Other	3,944	3,958	16,687	16,687	7,902	33,374	25,472	322.35%
Total Funds	**$605,162**	**$622,355**	**$705,533**	**$713,439**	**$1,227,517**	**$1,418,972**	**$191,455**	**15.60%**

Program Description

The Historic Sites Preservation Program (State Historic Preservation Office) administers the Montana Antiquities Ac (MCA 22-3-421; ARM 10.121.901) and Montana's participation in the National Historic Preservation Act of 1966, a amended, with its federal programs, guidelines, and grants-in-aid for historic preservation. Staff provide technica assistance to all Montana property owners, including agencies, organizations, and the public. Staff maintains a statewid inventory of recorded historic and archaeological sites. Staff reviews state agencies compliance with the state antiquitie act. Staff review and comment on all proposed federally funded or permitted projects within the state to determine thei effect on properties listed or eligible for listing in the National Register of Historic Places. Staff administers the Nationa Register of Historic Places program in Montana through the state preservation review board. The office recommend certification of historic structures and rehabilitation projects for federal tax credits to citizens and businesses, a authorized by the Tax Reform Act of 1976. The program awards and administers pass-through federal grants to loca governments participating in the federal Certified Local Government Program. The program may also award funds fo historic survey and planning for historic areas and for bricks and mortar rehabilitation when funds are available.

Program Highlights

Historic Preservation Program
Major Budget Highlights

- The executive budget increases this budget 15.6% in the 2013 biennium
  - Federal funds increase to the anticipated federal grant level
  - Proprietary funds for fees relating to historic preservation assistance and services increase as a result of general fund reductions
  - FY 2010 operating expenses were $25,000 higher than originally budgeted, this higher operating expense level continues into the 2013 biennium. The appropriated amount in FY 2011 reflects the original budget established by the 2009 Legislature
- The executive budget decreases general fund 37% in the 2013 biennium
  - The executive budget reduces general fund $21,400 as part of the 5% general fund reduction. These reductions are offset by increased proprietary funds

Program Narrative

FY 2010 operating expenses for this program were $25,000 higher than originally budgeted. This higher operating expense level continues into the 2013 biennium in the executive budget. The appropriated amount in FY 2011 reflects the original budget established by the 2009 Legislature.

Goals and Objectives

2013 Biennium Goal

The Legislative Finance Committee recommends goals and objectives for the Montana Historical Society be reviewed and monitored at the agency level. Please refer to the agency narrative for a discussion of the identified significant goals for the 2013 biennium.

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following summarizes the plan submitted for this program.

- The Governor's budget reduces general fund in this program by $21,400 in the 2013 biennium
- The reduction includes the 5% general fund reduction
- For discussion of how the reduction will be implemented in the program, see the decision package description for DP 55410 in the New Proposal section of this narrative

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table
Historic Preservation Program

Program Funding		Base FY2010	% of Base FY2010	Budget FY2012	% of Budget FY2012	Budget FY2013	% of Budget FY2013
01000	Total General Fund	$ 42,703	7.1%	$ 29,046	4.1%	$ 32,252	4.5%
	01100 General Fund	42,703	7.1%	29,046	4.1%	32,252	4.5%
03000	Total Federal Special Funds	558,515	92.3%	659,800	93.5%	664,500	93.1%
	03021 Historic Sites Preservation	558,515	92.3%	659,800	93.5%	664,500	93.1%
06000	Total Proprietary Funds	3,944	0.7%	16,687	2.4%	16,687	2.3%
	06013 Shpo Enterprise Fund	-	-	10,700	1.5%	10,700	1.5%
	06073 Historical Society Management	3,944	0.7%	5,987	0.8%	5,987	0.8%
Grand	Total	$ 605,162	100.0%	$ 705,533	100.0%	$ 713,439	100.0%

The program is funded through a combination of general fund, federal special revenue from the National Park Service (NPS), and proprietary funds. Proprietary funds are generated from fees for historical preservation assistance and services. These funds increase primarily because the executive uses them to replace general fund reduced in DP 55140 (see below). The executive budget increases federal special revenue 18% in anticipation of the federal grant it expects for the upcoming biennium. The grants from the NPS have a 60:40 federal/state matching requirement. MHS uses funding at the local level to match the federal grant.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	42,703	42,703	85,406	139.33%	605,162	605,162	1,210,324	85.30%
Statewide PL Adjustments	(2,957)	249	(2,708)	(4.42%)	100,371	108,277	208,648	14.70%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	(10,700)	(10,700)	(21,400)	(34.91%)	0	0	0	0.00%
Total Budget	**$29,046**	**$32,252**	**$61,298**		**$705,533**	**$713,439**	**$1,418,972**	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					94,076					94,7
Vacancy Savings					(20,061)					(20,08
Inflation/Deflation					(255)					(25
Fixed Costs					26,611					33,8
Total Statewide Present Law Adjustments		**($2,957)**	**$0**	**$101,285**	**$100,371**		**$249**	**$0**	**$105,985**	**$108,2**
Grand Total All Present Law Adjustments	**0.00**	**($2,957)**	**$0**	**$101,285**	**$100,371**	**0.00**	**$249**	**$0**	**$105,985**	**$108,2**

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- **Pay Plan Exceptions** - The program does not have any employee groups with exceptions to the agency's pay plan rules.
- **Program Specific Obstacles** – Some employees in the program must meet Secretary of Interior standards for professional qualification in historic preservation.
- **Vacancy** - The program does not have occupations with high turnover or high vacancies.
- **Legislatively Applied Vacancy Savings** - The program held open a grants and contracts coordinator position to address the 7% vacancy savings applied by the 2009 Legislature.
- **Pay/Position Changes** - There were no unusual pay adjustments for this program in FY 2010.
- **Retirements** - The program has three employees eligible for full retirement in the 2013 biennium with an estimated compensated absence liability of $30,179 as of mid-August 2010.

New Proposals

The "New Proposals" table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals	Fiscal 2012						Fiscal 2013				
Program	FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Federal Special	Total Funds
DP 55140 - 5% General Fund Reduction											
06	0.00	(10,700)	0	0	0*		0.00	(10,700)	0	0	0*
Total	**0.00**	**($10,700)**	**$0**	**$0**	**$0***		**0.00**	**($10,700)**	**$0**	**$0**	**$0***

* "Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

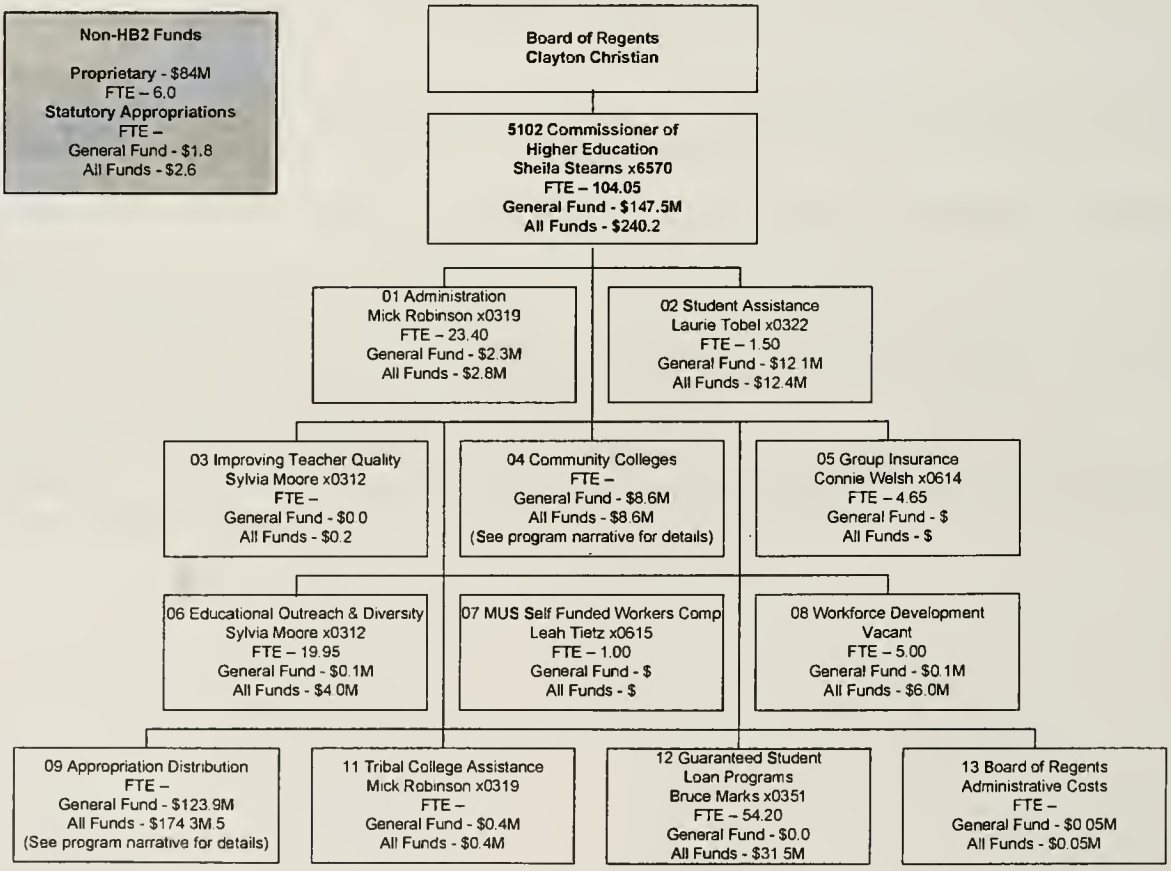
DP 55140 - 5% General Fund Reduction - The historic preservation program general fund is reduced by $10,700 in each year of the 2013 biennium as part of the compliance for 17-7-140, MCA, reductions. The agency will pay these expenditures with proprietary funds.

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	104.05	104.05	93.88	93.88	104.05	93 88	(10.17)	(9.77
Personal Services	5,405,153	7,319,233	5,874,346	5,893,313	12,724,386	11,767,659	(956,727)	(7.52
Operating Expenses	5,047,869	7,436,719	5,348,710	5,238,636	12,484,588	10,587,346	(1,897,242)	(15.20
Equipment & Intangible Assets	0	70,464	10,000	0	70,464	10,000	(60,464)	(85.81
Local Assistance	8,687,831	8,874,483	11,535,186	11,424,393	17,562,314	22,959,579	5,397,265	30.7
Grants	16,202,303	22,954,774	19,492,668	19,181,834	39,157,077	38,674,502	(482,575)	(1.23
Benefits & Claims	25,813,316	42,148,362	32,313,316	38,813,316	67,961,678	71,126,632	3,164,954	4.6
Transfers	179,030,609	176,052,286	191,902,017	195,455,870	355,082,895	387,357,887	32,274,992	9.0
Debt Service	43,480	46,520	43,480	43,480	90,000	86,960	(3,040)	(3.38
Total Costs	**$240,230,561**	**$264,902,841**	**$266,519,723**	**$276,050,842**	**$505,133,402**	**$542,570,565**	**$37,437,163**	**7.41**
General Fund	147,531,701	150,674,815	193,780,692	196,057,697	298,206,516	389,838,389	91,631,873	30.7
State Special	19,535,696	18,236,611	19,827,019	21,274,458	37,772,307	41,101,477	3,329,170	8.8
Federal Special	73,082,748	95,891,892	52,837,633	58,644,265	168,974,640	111,481,898	(57,492,742)	(34.02
Other	80,416	99,523	74,379	74,422	179,939	148,801	(31,138)	(17.30
Other	0	0	0	0	0	0	0	
Total Funds	**$240,230,561**	**$264,902,841**	**$266,519,723**	**$276,050,842**	**$505,133,402**	**$542,570,565**	**$37,437,163**	**7.41**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

Agency Mission: To serve students through the delivery of high quality, accessible postsecondary educational opportunities, while actively participating in the preservation and advancement of Montana's economy and society.

The Office of the Commissioner of Higher Education (OCHE) is the state-level administrative organization of the Montana University System (MUS). The Montana Constitution, Article X, Section 9, grants governance authority over the MUS to the Board of Regents (Regents), with seven members appointed by the Governor. All state funds appropriated by the legislature to the Regents for the support of the MUS are channeled through OCHE. The Constitution charges the Regents with hiring a Commissioner of Higher Education (CHE) who serves as its executive staff. The agency's 11 programs are:

- OCHE Administration*- General administration of the Montana University System including system level academic, financial, legal, and labor management functions. The Montana Constitution requires the Board of Regents to appoint a Commissioner of Higher Education and prescribe his/her duties.
- Student Financial Assistance*- Financial assistance programs for students attending units of the Montana University System. Programs include several state and federal funded grant programs, state support for professional student exchange programs, and loan repayment assistance programs.
- Improving Teacher Quality*- A federally-funded program intended to provide professional development and teacher training that improves teaching methods and teaching skills in the classroom
- Community College Assistance - State funding for community colleges is budgeted in this program. Two-year community colleges in Kalispell, Glendive, and Miles City collectively serve about 3,000 resident full-time students.
- MUS Group Health Insurance -This program administers a system wide group benefit program for MUS campuses, agencies, and programs, and the state's community colleges. Both the employer and the employee participate in the cost of this program.
- Educational Outreach and Diversity Program*- A primarily federally funded program that serves at-risk and underrepresented populations to increase participation and retention in postsecondary education.
- MUS Self-Insured Workers Compensation - Since July 2003, this program manages the MUS self-insured workers compensation program. All workers compensation insurance for the MUS is provided through this program.
- Workforce Development*- The OCHE and the Office of Public Instruction coordinate the primarily federal efforts to support vocational education at the secondary and postsecondary levels.
- Appropriation Distribution – State funding for university educational units and agencies is budgeted in this program. The MUS campuses collectively serve approximately 28,500 resident full-time students.
    - University Units*
        - UM Missoula
        - UM MT Tech
        - UM Western
        - UM Helena
        - MSU Bozeman
        - MSU Billings
        - MSU Northern
        - MSU Great Falls
    - Research and Public Service Agencies
        - Agricultural Experiment Station
        - Extension Service
        - Forest and Conservation Experiment Station
        - Bureau of Mines
        - Fire Services Training School
- Tribal College Assistance - Provides funding to Montana tribal colleges to support a portion of the cost of educating nonbeneficiary Montana students (non-tribal members) attending the seven tribal community colleges on the reservations in Montana.

- Guaranteed Student Loan Program*-Guarantees student loans that were made by private lenders to higher education students in Montana under the former Federal Family Education Loan Program prior to July 1, 2010. After July 1, all federal student loans will be issued and serviced through the U.S. Department of Education's William D. Ford Direct Loan Program.
- Board of Regents*- This program provides travel expenses and per diem expenses for the Board of Regents.

*Since the 1995 legislative session, the legislature has combined the appropriation for the university educational units and most of OCHE into a single, lump-sum appropriation. Thus, the legislature determines the size of this budget, but the Regents make the ultimate funding allocations to the various university campuses and programs.

Agency Highlights

Montana University System Major Budget Highlights
◆ Total funding for the agency increases 7.4%, with general fund increasing 30.7% and federal funds decreasing 34.0% due to: • Replacement of $59.5 million of federal stimulus funds with general fund as allowed in HB 645 • Increased state funding for community colleges, universities, and tribal colleges • Using a different methodology to estimate state percent share for the MUS campuses and agencies than was used for the 2011 biennium ◆ The executive budget proposes general fund reductions in the agency totaling $10.3 million, with most of this reduction impacting the state funds transferred to the university units, community colleges, and tribal colleges ◆ The executive backfills $1.8 million of reductions in the Student Assistance Program with federal funds from the guaranteed student loan account ◆ The executive proposes that one-time-only funding for PBS and biodiesel research be reinstated - $400,000 each project ◆ The executive budget proposes two new initiatives for higher education: • Dual enrollment, $500,000 • University Unit increase - $12.66 million ◆ The executive budget proposes to transfer the Digital Academy from the Office of the Commissioner of Higher Education to the Office of Public Instruction
Legislative Action Issues
◆ Interim Committee Recommendations • The Legislative Finance Committee recommends that the starting point for budget deliberations be the adjusted base less the agency 5% reduction plan ◆ The Legislative Fiscal Division Reference Book includes an option to amend a statutory appropriation relating to the MUS optional retirement program to require that the general fund statutory appropriation only be used for positions that are paid from the general fund ◆ The executive budget double counted the 1% MUS optional retirement program employer contribution increase, overestimating the 2013 biennium general fund cost by $2.4 million

Agency Discussion

Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the legislature may wish to review the following:

- Goals, objectives and year-to-date outcomes from the 2011 biennium.
- Critical agency goals, objectives, and anticipated outcomes and their correlation to the executive's budget request for the 2013 biennium.

2011 Biennium Goals

The following provides an update of the goals monitored by the LFC during the 2011 biennium.

Goal 1 – Improve system productivity by developing a more coordinated system of two-year education

- Successes
  - Implemented the two-year mission at all Montana two-year colleges serving as regional "access hubs"
- Dec 2010/Jan 2011 Milestones
  - Implement a common core curriculum and coordinated approaches to dual enrollment and transfer
  - Improve the technology infrastructure in order to increase access, accountability, and efficiency
  - Implement Banner, the university system's enterprise information system, at Dawson Community College (and possibly Miles Community College)
  - Expand virtual college capabilities to increase course sharing and improve student access to distance learning
- June 2010 Milestones
  - Develop strategies for outcomes-based incentives to drive budget planning for the next biennium
- Challenges
  - This goal has a four-year time horizon
  - It will take 12 to 18 months following project implementation to collect sufficient data to evaluate progress toward meeting the project performance objectives

LFD COMMENT Because of the long-term nature of this agency goal, the Legislative Finance Committee Education Subcommittee recommends that, as part of its budget deliberations during the 2011 legislative session, the Joint Appropriations Subcommittee on Education review the progress toward meeting the project's 2011 biennium milestones, including the strategies the agency has developed for outcome-based incentives to drive budget planning/allocation for the 2013 biennium.

Goal 2 – Retention and completion rates for students that have transferred between campuses and transferred in coursework from other institutions are at the same level as retention and completion rates for students that have not transferred

- Successes
  - As of June 2010, more than 6,500 courses in 40 disciplines across the Montana University System have gone through common course numbering, a major primary objective toward improving transferability of student credits and coursework
  - The timeline for completing common course numbering for all disciplines within the MUS is June 30, 2011
- Challenges
  - The agency will be unable to demonstrate if it has achieved the goal of equal retention and completion rates for "transfer" and "non-transfer" students until after the completion of the common course numbering project

2013 Biennium Goals

During the interim the LFC met with the agency to select critical goals and performance measurements for the legislature to consider during the appropriation process. The identified critical goals are:

- The LFC recommends the Shared Policy Goals and Accountability Measures for the Montana University System be adopted:
  - Goal 1 – Access & Affordability – Increase the overall educational attainment of Montanans through increased participation, retention, and completion rates in the Montana University System
  - Goal 2 – Workforce & Economic Development – Assist in the expansion and improvement of the state's economy through the development of high value jobs and the diversification of the economic base
  - Goal 3 – Efficiency & Effectiveness – Improve institutional and system efficiency and effectiveness
- The LFC recommends, after consultation with the agency, the focus in the 2013 biennium be in the following areas:
  - Student Enrollment Growth
  - Retention
  - Completion
  - Two-year education
  - Student Financial Aid, especially need-based aid
  - Transferability
- The Shared Policy Goals and Accountability Measures for the Montana University System were reaffirmed by the interim Education and Local Government Committee at its August 2010 final meeting
- See the Agency Issues section of this agency summary for a summary of the Shared Policy Goals and Accountability Measures for the Montana University System

Governance and Legislative Appropriations Authority

Although the Board of Regents is organizationally placed in the Executive Branch, the Montana Constitution grants the Regents broad governing authority over the Montana University System (MUS). Article X, Section 9, of the Montana Constitution provides "the government and control of the Montana University System is vested in the Board of Regents which shall have full power, responsibility, and authority to supervise, coordinate, manage, and control the system." The powers and duties of the seven-member Board of Regents are further described in 20-25-301, MCA.

On the other hand, while the Montana Constitution grants governance authority to the Regents, the power to appropriate state funds remains with the legislature. The Montana University System receives funding from a variety of government sources, including state general fund and revenue from the six-mill property tax levy. These funds must be appropriated by the legislature. With this "power of the purse" typically comes the authority to attach policy decisions to the funding.

The product of higher education is, for the most part, the delivery of services to private individuals who pay directly for these services in a contractual manner. So the university system is also supported with "private revenue" that individuals contract for, specifically tuition for educational instruction, residence hall fees for housing, meal allowance for food service, ticket prices for athletic and arts events, etc. The legislature does not have any appropriations authority over these private revenue funds that go to the university system.

Within this constitutional configuration and diverse revenue sources, a tension exists between Regents' autonomy that comes with governance authority and the power that comes from the legislative appropriation of state funds. Through a series of legal decisions, this tension has been reconciled as follows:

- The Montana legislature cannot do indirectly, through fiscal appropriation, what it is not permitted to do directly by the Constitution. In other words, the appropriation of state funds cannot be used to blatantly drive university governance policy, as governance is the constitutional role of the Board of Regents
- Legislative appropriation power does not extend to private funds received by state government that are restricted by law, trust agreement, or contract, such as student tuition and the other fees listed above

- Legislative appropriation power does, however, allow the legislature to establish requirements that the university system must comply with, including audit, accounting, and other fiscal accountability measures
- The legislature also may establish conditions on appropriated funds and, if the Board of Regents accepts the funds, then it also accepts those conditions

(Source: For more information about this Constitutional structure and history, see The Structure of Higher Education in Montana: Meandering the Murky Line, Montana Legislative Services Division, September 1999. Memo available at: http://leg.mt.gov/css/Publications/).

Agency Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- **Pay Philosophy** – The majority of employees in the Montana University System are employed under individual employment contracts, mostly for one year at a time, subject to renewal or non-renewal in accordance with Board of Regents policy. There is no salary schedule or job classification system for these employees because the compensation levels are determined by individual negotiation at the time of hire. Traditionally, if the legislature provides a pay raise for state government employees outside the Montana University System, the Board of Regents authorizes a similar raise for employees in the Montana University System. Approximately one-third of the workforce is covered by a Montana University System classified pay plan, which covers support staff positions such as clerical, custodial, maintenance, and food service workers. Similar to the rest of the workforce, this group traditionally receives a pay raise that mirrors any raise the Legislature provides for state government employees outside the Montana University System. The Board of Regents has not yet adopted a pay philosophy for the 2013 biennium.
- **Labor Market Experience and Obstacles** – The economy of the past two years appears to have slowed the rate of retirements and resignations by employees. However, when a vacancy must be filled, the current salary levels for contract faculty, contract professionals, and contract administrators appear to be nearly as non-competitive as they were two years ago.

Agency Overview

Budget Comparison

The executive budget includes both increases and decreases for the higher education budget in the 2013 biennium. Overall, the executive budget proposes to increase the HB 2 budget $37.4 million, or 7.4%, from the 2011 biennium to the 2013 biennium.

Biennial budget increases are primarily due to the executive's recommendation for increased funding for the state's community colleges and an increased state percent share for university units' present law adjustments, increased assistance for tribal colleges, reinstating some of the one-time-only appropriations included in HB 645 passed by the 2009 Legislature, and two new initiatives requested by the Governor for dual enrollment and the university units.

The executive budget proposes a $5.4 million, 31.3%, biennial increase for the community college budgets in the 2013 biennium. The biennial increase is driven primarily by replacing one-time-only funding from HB 645 passed by the 2009 Legislature and projected increases in student enrollment. The executive used the statutory funding formula (Section 20-15-310, MCA) to estimate the state appropriation for the community colleges. This funding formula uses enrollment projections and base year, ongoing costs to estimate the total community college budget, and the state percent share that determines the state appropriation. The state percent share is a policy choice of the legislature. The executive recommends a state percent share of 50.8% each year of the 2013 biennium. This is the state share percentage used by the 2009 Legislature for the 2011 biennium.

The executive budget proposes a $30.3 million, 8.8%, biennial increase for the university campus and agency budgets in the 2013 biennium. The executive budget methodology for estimating the university campus and agency budgets is not

formula-based, nor is it enrollment-based. Although historically the university budgets had been estimated by using an enrollment-based formula, it has been several years since any budget adjustments have been included for enrollment changes. The executive budget uses the standard "base-plus" budget methodology that is used for most other state agencies in Montana. This methodology starts with the expenditures in the base budget year, and includes adjustments—positive or negative—for budget changes that would continue services at the level authorized by the last legislature. New proposals are in addition to present law adjustments. The state funding is also "base-plus". Funding to cover the state portion of the budget adjustments is added or subtracted to the state appropriation in the base budget year. The state portion for the budget adjustments, or state percent share, is a policy choice of the legislature. The executive budget recommends using an average of 84% as the state percent share for budget adjustments in the 2013 biennium. Recent historical state share percentages have ranged from 5.5% to 85%. For more discussion of the state percent share and the policy choices for the legislature, see the *State Percent Share – A Legislative Policy Choice* section in the Program 09-Appropriation Distribution Program budget narrative.

Please note that the state percent share applied to the community college budgets (50.8%), as discussed in an earlier paragraph, is applied to the projected total 2013 biennium budget for the community colleges. In contrast, the state percent share applied to the university units (84%) as discussed in the previous paragraph is applied to budget adjustments (decision packages) only. To view the university-equivalent of the overall state percent share that is comparable to the community colleges, see Figure 1 in the Agency Issues section of this narrative.

The executive budget proposes a $0.8 million, 90.9%, biennial increase for assistance to tribal colleges. This biennial increase is due to the executive recommending replacement of the one-time-only funding from HB 645 passed by the 2009 Legislature. State funding to tribal colleges in Montana is provided in Section 20-25-428, MCA. This statute requires the Board of Regents to provide assistance to tribal colleges "subject to a line item appropriation" by the legislature, up to a maximum of $3,024 per year for each nonbeneficiary student FTE. The statute does not establish a minimum appropriation level. If nonbeneficiary student enrollment remains at the same level as it was in FY 2010 (about 300 FTE), the state assistance that would be transferred to tribal colleges is $2,807 per nonbeneficiary student each year.

The 2013 biennium executive budget includes a portion of the one-time-only appropriations from HB 645 passed by the 2009 Legislature. By statute, one-time-only appropriations are excluded from the FY 2010 budget base expenditures and are therefore not in the agency level budget comparison table. The figure on the following page illustrates the 2011 biennium HB 645 one-time-only appropriations that are reinstated – partially or completely – in the 2013 biennium executive budget. As shown in the table, the executive budget replaces $20.5 million of the $20.7 million of HB 645 one-time-only appropriations for the MUS university units. For community colleges, the executive budget recommends an additional $5.5 million in DP 401 Community College Assistance Base Budget Request while the total HB 645 one-time-only appropriations for community colleges general operating budgets totaled $2.9 million.

Montana University System - HB 645 OTO Appropriations				
Appropriation Description	Total Biennial HB 645 OTOs	Replaced in 2013 Executive Budget	PG #	Executive Budget Decision Package
Distance Learning	$2,000,000	$0		
Virtual Academy	2,000,000	0		Moved to OPI in 2013 Biennium Exec Budget
Community College Assistance-Restore to Gov Dec 15 Budg	1,277,775	incl		
Community College Assistance (Projects)	1,800,000	0		
Community College Tuition Mitigation	1,600,875	incl		
Subtotal Community Colleges	4,678,650	5,464,103	04	DP 401-CC Assistance Base Budget Request
Extension Service-Local Government Centers	300,000	0		
PBS	400,000	400,000	09	DP 916 - PBS Satellite Up-Linking
Ag Experiment Station-Sawfly Research	500,000	0		
University Units Tuition Mitigation	5,660,263	incl		
Replace 6-Mill Levy Revenue Shortfall	2,493,921	incl		
Tuition Mitigation & Increased Distance Learning Access	12,546,835	incl		
Subtotal University Units	20,701,019	20,582,458	09	All Present Law DPs for University Units
Tribal College Assistance	900,000	917,996	11	DP 1101 - Funding for Non-Beneficiary Students
Agency Total	$31,479,669	$27,364,557		

If the one-time-only funding from the 2011 biennium is considered in the budget comparison, the biennial budget increase is 1.4%.

The executive budget adds $13.16 million for two new higher education initiatives. Five-hundred thousand over the 2013 biennium is added to the Student Assistance Program for tuition and scholarships for dual enrollment. The executive is requesting the $500,000 be contingent upon the MUS developing common tuition and fee structures for dual enrollment courses. The executive includes a second initiative, adding $12.66 million, to enhance student access and success, promote economic development, and more readily respond to workforce development needs. The executive recommends that the system presidents develop a plan for spending the additional funds and obtain Board of Regent approval for the spending plan.

The executive budget also proposes general fund reductions totaling $10.3 million in the 2013 biennium. A total of $4.6 million is reduced in the executive budget for 4% personal service reductions and $5.7 million is reduced for continuing a portion of the 17-7-140 reductions implemented in the 2011 biennium. See the table in the 17-7-104, MCA reductions section later in this narrative for a list of the 17-7-140, MCA general fund spending reductions in the 2011 biennium and which of those reductions are continued in the 2013 biennium executive budget.

Impact of Proposed Executive Budget

The impact of general fund spending in the executive budget is illustrated in the table on the following page, which demonstrates the funding levels for each of the major functional areas of the MUS and shows the percent change from the 2011 biennium.

Montana University System - Impact of 2013 Biennium Executive Budget Across Functional Areas
General Fund and State Special Revenue Only

Budget Item	Actual FY2010	Budgeted FY2011	Exec. Budget FY2012	Exec. Budget FY2013	Change 11-13 Bien.	% Change 11-13 Bien.
Education Services						
University Educational Units	$119,654,486	$119,806,146	$163,275,645	$166,779,651	$90,594,664	37.83%
Resident Student Enrollment	28,398	28,526	28,883	29,102	1,061	1.86%
State Funds/Student	$4,213	$4,200	$5,653	$5,731	$2,970	35.31%
Community College Assistance	$8,562,831	$8,735,483	$11,410,186	$11,299,393	$5,411,265	31.28%
Resident Student Enrollment	2,825	2,535	2,890	2,838	368	6.9%
State Funds/Student	$3,031	$3,446	$3,948	$3,981	$1,453	22.4%
Tribal College Assistance	$441,002	$441,002	$842,085	$842,085	$802,166	90.95%
Non-Beneficiary Students	273	300	300	300	27	4.71%
State Funds/Student	$1,615	$1,470	$2,807	$2,807	$2,529	81.95%
Research/Public Service Agencies	$23,369,238	$22,776,892	$22,573,447	$22,623,294	($949,389)	-2.1%
Student Grants/Assistance						
WICHE/WWAMI/MN Dental	$5,239,098	6,029,742	$5,601,134	$5,703,300	$35,594	0.32%
Number of Students	166	170	168	165	(3)	-0.89%
State Funds/Student	$31,561	$35,469	$33,340	$34,565	$876	1.31%
Gov's Postsecondary Scholarships	$2,393,000	$2,507,000	$2,500,000	$2,500,000	$100,000	2.04%
Number of Students	1,769	1,810	1,801	1,801	23	0.64%
State Funds/Student	$1,353	$1,385	$1,388	$1,388	$38	1.40%
Baker Grants	$2,041,990	$2,041,990	$2,041,990	$2,041,990	$0	0.00%
Number of Students	2,585	2,585	2,585	2,585	-	0.00%
State Funds/Student	$790	$790	$790	$790	$0	0.00%
Montana Higher Education Grants	$553,088	$568,767	$553,088	$553,088	($15,679)	-1.40%
Number of Students	1,020	1,020	1,020	1,020	-	0.00%
State Funds/Student	$542	$558	$542	$542	($15)	-1.40%
State Work Study Program	$862,989	$862,989	$862,989	$862,989	$0	0.00%
Number of Students	805	805	805	805	-	0.00%
State Funds/Student	$1,072	$1,072	$1,072	$1,072	$0	0.00%
State Match to Federal Grants	$506,741	$491,050	$506,741	$506,741	$15,691	1.57%
Number of Students	1,546	1,546	1,546	1,546	-	0.00%
State Funds/Student	$328	$318	$328	$328	$10	1.57%
Teacher Loan Forgiveness Program	$471,754	$1,602,700	$948,000	$1,191,000	$64,546	3.11%
Number of Recipients	163	251	316	397	299	72.22%
State Funds/Recipient	$2,894	$6,385	$3,000	$3,000	($3,279)	-35.34%
MSH/MSP Nursing Loan Reimbursement Pgm	$36,307	$37,193	$36,307	$36,307	($886)	-1.21%
Number of Recipients	15	15	15	15	-	0.00%
State Funds/Recipient	$2,420	$2,480	$2,420	$2,420	($59)	-1.21%
NEW PROPOSAL -- Dual Enrollment			$250,000	$250,000	$500,000	
NEW PROPOSAL -- Carryforward Gov's Reductions/Student Assistance Program			($875,800)	($875,800)	($1,751,600)	
Administration/Special Programs	$2,659,873	$2,735,472	$2,706,899	$2,643,117	($45,329)	-0.84%
Total General Fund & State Special Rev.	$166,792,397	$168,636,426	$213,232,711	$216,957,155	$94,761,043	28.25%

Sources: SABHRS FY 2011 ongoing appropriations; student service data from OCHE, November 2010
FY 2010 Actual and 2013 Biennium Executive Budget from MBARS

Figures for all years exclude Motorcycle Safety Sub-Program

As the table illustrates, the overall increase in general fund and other state revenue spending for the 2011 biennium i $94.8 million, a 28.3 percent increase. The most significant biennial increases occur in the following programs:

- University educational units show a $90.6 million increase. However, almost two-thirds of this is due to th replacement of federal stimulus funds in the 2011 biennium with general fund in the 2013 biennium. See th Funding section below for more information. After adjusting for the fund switch, the remaining general an state special revenue increase is for present law adjustments and new proposals contained in the executiv budget

- The community colleges budget increases $5.4 million, 31.3%. Per student expenditures funded from state funds are projected to increase from $3,031 to $3,981
- Tribal College Assistance increases by $802,166 as the Governor is recommending reinstatement of the one-time-only HB 645 appropriation passed by the 2009 Legislature
- The Governor's proposed carryforward of 17-7-140, MCA reductions for student assistance total $1.75 million but are not allocated to a specific program in the state budget system

Legislative Committee Bills and Recommendations

The Legislative Finance Committee recommends the global adoption of the Governor's 5% reduction plans as a base-less-5% motion for the starting point of budget deliberations. See the 5% Reduction Plan section below for more detail.

17-7-140, MCA Reductions

During the interim the Governor requested that the Board of Regents manage the various program budgets of the Montana University System in order to reduce state general fund expenditures. In April 2010, the Board of Regents approved expenditure reductions totaling $6.8 million. Expenditure reductions were taken in both FY 2010 and FY 2011 to meet the overall reduction amount.

General Fund Spending Reductions 17-7-140, MCA

Item	FY 2010	FY 2011	Ongoing GF Reduction in Exec Budget Per Year
Administration Program	$0	$330,772	$0
Student Assistance Program			
Quality Educator Loan Assistance	0	600,000	600,000
WICHE/WWAMI/MN Dental	0	275,800	275,800
Tribal College Assistance	0	57,915	57,915
Board of Regents	0	5,034	5,034
Community Colleges	113,404	113,404	65,809
University Units	1,339,957	1,352,240	749,642
Agricultural Experiment Station	0	980,876	615,086
Extension Service	0	461,381	288,363
Forest and Conservation Experiment Station	0	92,686	57,929
Bureau of Mines	0	154,663	96,664
Fire Services Training School	0	59,552	37,220
HB 645 Appropriations/OTO funding			
Distance Learning Initiative	0	200,000	0
Digital Academy	0	90,000	0
Sawfly Research	0	75,000	0
Local Government Center	0	6,750	0
PBS	0	15,000	0
Ground Water Investigation Program - HB 52	0	500,000	0
Total	$1,453,361	$5,371,073	$2,849,462
Biennial Total		$6,824,434	$5,698,924

The executive budget continues $5.7 million of the $6.8 million reductions taken in the 2011 biennium. The 17-7-140, MCA reductions that are continued into the 2013 biennium are included in the 5% reduction plan discussed in the next section.

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following summarizes the plan submitted for this agency.

Total 5% Reduction Plan Identified by Montana University System
Included and Not Included in Executive Budget
2013 Biennium

Program/DP Number/Description	FTE	General Fund	% Of Total	State Special Revenue	% Of Total
Administration Program					
Included in Executive Budget					
55400 4% Personal Services Reduction	0.97	$181,500	1.2%	$0	0.0%
Total Administration Program		$181,500	1.2%	$0	0.0%
Student Assistance Program					
Included in Executive Budget					
55140 Carryforward FY 11 17-7-140 reductions*		$1,751,600	12.0%	$0	0.0%
Total Student Assistance Program		$1,751,600	12.0%	$0	0.0%
Community College Assistance					
Included in Executive Budget					
55140 Carryforward FY 11 17-7-140 reductions		$131,618	0.9%	$0	0.0%
Not Included in Executive Budget					
5% Reduction Plan		$720,590	4.9%	$0	0.0%
Total Community College Assistance		$852,208	5.8%	$0	0.0%
Appropriation Distribution to Educational Units					
Included in Executive Budget					
55140 Carryforward FY 11 17-7-140 reductions		$1,499,284	10.3%		0.0%
55401 4% Personal Services Reduction		$3,704,770	25.4%		0.0%
Not Included in Executive Budget					
5% Reduction Plan		$3,584,641	24.5%		0.0%
Total Appropriation Distribution to Educational Units		$8,788,695	60.2%	$0	0.0%
Appropriation Distribution to Research/Public Service Agencies					
Included in Executive Budget					
55140 Carryforward FY 11 17-7-140 reductions		$2,190,524	15.0%		0.0%
55401 4% Personal Services Reduction		$720,719	4.9%		0.0%
Total Appropriation Distribution to Agencies		$2,911,243	19.9%	$0	0.0%
Tribal College Assistance					
Included in Executive Budget					
55140 Carryforward FY 11 17-7-140 reductions		$115,830	0.8%	$0	0.0%
Total Tribal College Assistance		$115,830	0.8%	$0	0.0%
Board of Regents					
Included in Executive Budget					
55140 Carryforward FY 11 17-7-140 reductions		$10,068	0.1%	$0	0.0%
Total Board of Regents		$10,068	0.1%	$0	0.0%
Total Reduction Plan					
Included in Executive Budget	0.97	$10,305,913	70.5%	$0	0.0%
Not Included in Executive Budget	0.00	4,305,231	29.5%	0	0.0%
Total Agency Reduction Plan	0.97	$14,611,144		$0	0.0%

*The executive budget backfills this reduction with a like amount of federal funds from the guaranteed student loan program

Narrative Discussion

The 5% reduction plan for the Montana University System includes general fund reductions totaling $14.6 million for th 2013 biennium. Of this amount, $10.3 million is included in the executive budget. Reductions not included in th executive budget total $4.3 million. The largest reductions in the plan are:

- $1.8 million in the Student Assistance Program, reducing general fund available for the quality educator loan assistance program and the WICHE/WWAMI program. The executive proposes backfilling this general fund reduction with federal funds available from the guaranteed student loan program
- $8.8 million in the Appropriation Distribution Program for the university units. The MUS indicates that reductions of this amount at the university units would impact students by increasing student-faculty ratios, reducing course offerings, and reducing academic support and student services
- $2.9 million in the Appropriation Distribution Program for the research/public service agencies. The MUS noted the agencies would be required to reduce services; however, no specific services were indicated. Without knowing the specific services that would be reduced or eliminated, it is difficult to evaluate the overall impact

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding
2013 Biennium Budget

Agency Program	General Fund	State Spec.	Fed Spec.	Proprietary	Grand Total	Total %
01 Administration Program	$ 4,620,860	$ -	$ 892,811	$ 148,801	$ 5,662,472	1.04%
02 Student Assistance Program	25,310,564	203,719	2,132,478	-	27,646,761	5.10%
03 Improving Teacher Quality	-	-	496,120	-	496,120	0.09%
04 Community College Assistance	22,709,579	-	-	-	22,709,579	4.19%
06 Educational Outreach & Diversity	137,329	-	12,685,283	-	12,822,612	2.36%
08 Work Force Development Pgm	180,134	-	12,538,372	-	12,718,506	2.34%
09 Appropriation Distribution	335,104,279	40,897,758	-	-	376,002,037	69.30%
11 Tribal College Assistance Pgm	1,684,170	-	-	-	1,684,170	0.31%
12 Guaranteed Student Loan Pgm	-	-	82,736,834	-	82,736,834	15.25%
13 Board Of Regents-Admin	91,474	-	-	-	91,474	0.02%
Grand Total	$ 389,838,389	$ 41,101,477	$ 111,481,898	$ 148,801	$ 542,570,565	100.00%

Funding is primarily general fund. The executive replaced $59.5 million in 2011 biennium federal State Fiscal Stabilization Funds (SFSF) from the American Recovery and Reinvestment Act (ARRA – the federal stimulus bill) with general fund in the 2013 biennium as allowed in HB 645 passed by the 2009 Legislature. This fund switch accounts for 65% of the general fund increase in the 2013 biennium. The 2009 Legislature used the SFSF funds in the 2011 biennium to free up general fund that had been included in HB 2 for the MUS educational units. The freed up general fund was then reallocated to higher education and other non-education programs for the 2011 biennium as one-time-only appropriations.

Statutory Appropriations

The following table shows the total statutory appropriations associated with this agency. Because statutory appropriations do not require reauthorization each biennium, they do not appear in HB 2 and are not routinely examined by the legislature. The table is provided so that the legislature can get a more complete picture of agency operations and associated policy.

As appropriate, LFD staff has segregated the statutory appropriations into two general categories: 1) those where the agency primarily acts in an administrative capacity and the appropriations consequently do not relate directly to agency operations; and 2) those that have a more direct bearing on the mission and operations of the agency.

Statutory Appropriations Montana University System					
Purpose	MCA #	Fund Source	Fiscal 2010	Fiscal 2012	Fiscal 2013
No Direct Bearing on Agency Operations					
Establish/maintain Montana travel research program (at UM Missoula)	15-65-121	SSR	410,000	410,000	410,000
Direct Bearing on Agency Operations					
Pay 1% of employer's share of optional retirement program for eligible employees [1]	19-21-203	GF	$1,794,232	$1,791,891	$1,791,891
Pay admin costs of rural physician incentive program and educational debt of certain rural physicians	20-26-1503	SSR	408,201	637,250	591,250
Total Statutory Appropriations			2,612,433	2,839,141	2,793,141

[1] FY 2012 and FY 2013 are current law estimates. The executive budget proposes changing this statutory appropriation

The statutory appropriation for travel research is state special revenue from an allocation of the 4% lodging facility use tax. The funds are distributed to the University of Montana through the Office of the Commissioner of Higher Education.

The statutory appropriation for the MUS optional retirement plan is general fund. The statutory appropriation funds a 1% employer contribution increase authorized by HB 95 passed by the 2007 Legislature.

LFD COMMENT

HB 95 increased the employer's contribution to the optional retirement plan by 1% for plan participants. Since implementation, the general fund statutory appropriation has been used to fund the benefit increase for all plan participants, regardless of the funding source that pays the regular salary and benefits for the plan participants.

The Legislative Fiscal Division included an option in the Reference Book to change statute to allow the general fund statutory appropriation only for plan participants that are funded from general fund. The reference book identified a biennial savings of $1.0 million.

The 2013 biennium executive budget recommends the statute be amended to provide that the statutory appropriation fund the additional 1% employer contribution only for those plan participants that are funded from general fund.

LFD ISSUE

ORP 1% Employer Contribution is Double Budgeted in 2013 Executive Budget

The executive budget includes the cost of the additional 1% employer contribution in the proposed HB 2 higher education budget as well as the optional retirement program (ORP) statutory appropriation authorized by Section 19-21-203, MCA. The general fund cost that is overstated in the executive budget is $2.4 million for the biennium. The Governor's Office of Budget and Program Planning was notified of this budget error on December 9, 2010. The Governor may include a correction in the final December 15th proposed executive budget.

LFD ISSUE CONT.

The optional retirement program, established by HB 300 passed by the 1987 Legislature, is a defined contribution retirement plan for academic and professional administrative personnel in the Montana University System. When the program was first implemented, eligible personnel could choose to join the ORP or remain in a defined benefit plan (either TRS or PERS). In 1993, all newly hired eligible personnel were required to become members of the ORP. Today, approximately 3/4ths of the retirement costs in the MUS general operating budgets are for the optional retirement plan.

HB 95 passed by the 2007 Legislature increased the employer's share of the ORP by 1 percentage point and funded the increase with a statutory general fund appropriation. For the 2013 biennium, the executive budget included $2.6 million for this statutory general fund appropriation.

The state budgeting system (MBARS) calculates projected salaries and benefits using wage and benefit rates currently in effect. The benefit rate for participants of the MUS optional retirement program (ORP) was not reduced to reflect the statutory appropriation used to fund the 1% employer contribution increase. Because the state funds only a portion of the HB 2 costs, the state portion of the double counted cost is $2.4 million.

Options:

- Reduce the HB 2 general fund by $2.4 million for the 2013 biennium for the Appropriation Distribution Program
- Approve the executive budget as submitted.

The statutory appropriation for the rural physician incentive program is state special revenue from fees assessed to students preparing to be physicians in the field of medicine or osteopathic medicine who are supported by the state pursuant to an interstate compact for a professional education program in those fields. The assessment may not exceed 16% of the annual support fee paid by the state and may be used only to pay the educational debts of physicians who practice in rural or underserved areas and administrative costs of the program.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category

	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	147,531,701	147,531,701	295,063,402	75.69%	240,230,561	240,230,561	480,461,122	88.55%
Statewide PL Adjustments	30,855,863	29,352,638	60,208,501	15.44%	874,849	810,164	1,685,013	0.31%
Other PL Adjustments	11,454,341	12,944,341	24,398,682	6.26%	20,343,776	27,657,550	48,001,326	8.85%
New Proposals	3,938,787	6,229,017	10,167,804	2.61%	5,070,537	7,352,567	12,423,104	2.29%
Total Budget	**$193,780,692**	**$196,057,697**	**$389,838,389**		**$266,519,723**	**$276,050,842**	**$542,570,565**	

Language and Statutory Authority

The executive budget requests the following information requirement be included in HB 2. The proposed language requires that the MUS provide a list of position numbers and FTE by campus or agency associated with the proposed 4% personal services reduction.

"Program 09 includes a reduction of $2,212,550 general fund in FY 2012 and $2,212,939 in FY 2013 to implement the 4% general fund personal services reduction. The Board of Regents must supply the Office of Budget and Program Planning and the Legislative Fiscal Division a list of the position numbers and FTE by campus and/or agency associated with the reduction by no later than August 1, 2011."

Agency Issues

State Percent Share and the Historical Impact on the University Educational Units

The figure on the following page illustrates 13 years of history of the total budget funding mix for the university educational units and the trends for the various revenue sources, including the state percent share. As the figure shows, since FY 2000 student tuition revenue has been the fastest growing revenue source for the university units, growing at about 6.5% per year, while overall state support has been growing about 3.7% per year. In the meantime, the state percent share has gone from 49.7% in FY 2000 to 40.7% in FY 2010. If the executive budget is approved as proposed, the state percent share is estimated to be 40.8% in FY 2013.

Figure 1

Historical Funding and State Percent Share - Educational Units Only
Montana University System
Fiscal Years 2000 - 2013

Budgeted Revenue by Source	FY 2000 Budgeted	FY 2001 Budgeted	FY 2002 Budgeted	FY 2003 Budgeted	FY 2004 Budgeted	FY 2005 Budgeted	FY 2006 Budgeted	FY 2007 Budgeted	FY 2008 Budgeted	FY 2009 Budgeted	FY 2010 Budgeted	FY 2011 Budgeted	FY 2012 Exec Budget	FY 2013 Exec Budget	Annual Percent Change
General Fund[1,2]	$94,922,977	$95,844,703	$104,849,450	$101,347,323	$107,186,837	$101,381,233	$111,395,004	$112,552,060	$125,093,960	$138,977,163	$133,629,465	$131,434,006	$145,815,500	$152,097,262	3.69%
Student Tuition	108,577,974	112,934,296	120,897,552	147,022,505	158,086,393	172,721,055	188,215,243	206,049,651	204,832,437	211,100,180	218,155,115	236,364,336	244,688,341	244,953,076	6.46%
Six-Mill Levy	14,809,000	15,280,000	11,868,912	12,036,912	12,235,000	12,362,999	13,385,001	13,679,000	17,565,323	16,369,436	18,318,027	17,018,698	18,508,238	19,955,748	2.32%
Other	2,313,795	2,504,907	3,002,673	2,970,384	5,946,357	6,355,565	2,558,151	2,007,205	3,965,741	4,184,049	2,915,765	4,572,464	4,572,464	4,572,464	5.38%
Total	$220,623,746	$226,563,906	$240,618,587	$263,377,124	$283,454,587	$292,820,852	$315,553,399	$334,287,916	$351,457,461	$370,630,828	$373,018,372	$389,389,504	$413,584,543	$421,578,550	5.11%
Total State Support	109,731,977	111,124,703	116,718,362	113,384,235	119,421,837	113,744,232	124,780,005	126,231,060	142,659,283	155,346,599	151,947,492	148,452,704	164,323,738	172,053,010	3.52%
State Percent Share	49.7%	49.0%	48.5%	43.1%	42.1%	38.8%	39.5%	37.8%	40.6%	41.9%	40.7%	38.1%	39.7%	40.8%	-1.51%

Sources: BOR Operating Budgets (Summary of Funding) FY 1988 - 1995
OCHE Submission to Legislative Audit Division (Cost of Education Historical Summary) FY 1996-2006
2007 - 2009 MBARS excluding OTO appropriations and Misc Sub-Programs

Footnotes

1) 2010 and 2011 general fund includes federal State Fiscal Stabilization Funds from the American Recovery and Reinvestment Act of 2009 ($30.95M in FY 10 and $28.57M in FY 11)

2) 2010 and 2011 general fund reflects Governor's 17-7-140 reductions ($1.34M in FY 10 and $1.35M in FY 11)

Shared Policy Goals

The table on the following three pages summarizes the shared policy goals and accountability measures for the Montana University System that were reaffirmed by the interim Education and Local Government Committee at its August 2010 final meeting. The Legislative Finance Committee recommended at its October 2010 meeting that the shared policy goals be adopted for the 2013 biennium.

Table 1 -- Shared Policy Goals and Accountability Measures for the Montana University System

Shared Goal I:
Increase the overall educational attainment of Montanans through increased participation, retention and completion rates in the Montana University System.

Goals	Objectives	Measures
1.1 Prepare students for success in life through quality higher education	1. Improve postsecondary education participation rates 2. Increase retention rates within the MUS 3. Increase completion rates within the MUS	• College continuation rates • Freshmen retention rates • Graduation rates
1.2 Make higher education more affordable by offering more need-based aid and scholarships	1. Reduce the amount of unmet student need for financial aid 2. Increase the percentage of students who receive financial aid or scholarships 3. Increase the average aid/scholarship award amount	• Unmet need of students receiving Pell grants • % of 1st-time, full-time students receiving aid • Average aid awarded to 1st-time, full-time students
1.3 Promote postsecondary education affordability	1. Increase the amount of state support as a percentage of total personal income relative to peer states and historical levels 2. Decrease tuition as a percentage of median household income	• State support for higher education per capita and per $1,000 of personal income • Ratio of tuition and fees to median household income
1.4 Work collaboratively with the K-12 system to increase high school academic preparedness, completion, and concurrent enrollment programs	1. Expand outreach to at-risk and disadvantaged students as to the importance and accessibility of postsecondary education and the quality of the MUS 2. Expand outreach to top academic achievers graduating from Montana high schools 3. Increase dual enrollment and advanced placement	• At-risk and disadvantaged student enrollment • % of entering students with ACT scores in the top quartile • # of MT high school students taking AP exams and college courses
1.5 Increase enrollment of traditional and non-traditional students	1. Increase enrollment in two-year programs 2. Increase programs and classes for non-traditional students, including evening and weekend programs	• Enrollment at two-year institutions • Enrollment of non-traditional students (students 25 years and older)
1.6 Improve distance learning by coordinating online delivery of education across the entire Montana University System	1. Increase student enrollment in online courses 2. Increase the number of online courses and degrees 3. Increase the number of workforce development degree programs and certificates offered	• Enrollment in distance learning courses • Number of distance learning courses offered at two-year and four-year colleges

Shared Goal II:

Assist in the expansion and improvement of the state's economy through the development of high value jobs and the diversification of the economic base.

Goals	Objectives	Measures
2.1 Increase responsiveness to workforce development needs by expanding and developing programs in high demand fields	1. Increase employer satisfaction with graduates 2. Increase degrees and certificates awarded in high demand occupational fields 3. Increase job placement rates 4. Increase the number of degrees and certificates conferred in two-year programs	• Program level employer satisfaction surveys • # of degrees and certificates awarded in health-care and construction • # of graduates finding employment in MT in health-care and construction • # of associate degrees and certificates awarded
2.2 Establish collaborative programs among institutions, the private sector, and the state to expand research, technology transfer, the commercialization of new technologies, and the development of our entrepreneurs	1. Increase research and development receipts and expenditures 2. Increase technology licenses with Montana businesses	• MUS research and development expenditures • MUS technology transfer activity
2.3 Expand graduate education capacity and opportunities in order to increase educational attainment of Montanans, fuel economic development, grow the research and development enterprise, and contribute to the cultural and social fabric of Montana and the region	1. Increase the number and percentage of graduate students in the Montana University System 2. Increase graduate degree production, maintaining a strong concentration in science, technology, engineering, and math (STEM) fields	• Graduate student enrollment • Graduate degrees awarded (per 100 grad student FTE, number and percent in STEM)

Shared Goal III:
Improve institutional and system efficiency and effectiveness.

Goals	Objectives	Measures
3.1 Improve accuracy, consistency and accessibility of system data, including the continued development of a comprehensive data warehouse	BOR Strategic Initiatives 1. Develop an integrate information system 2. Continue to develop and improve the MUS education network 3. Maintain and work to improve a system-wide data warehouse	(progress on System Initiatives, 2010) • Comm. College Banner Integration, Data Standardization Project, Northern Tier Network, K-20 Data Linkage
3.2 Deliver efficient and coordinated services	1. Expenditures per student relative to peer institutions and history 2. Percent of expenditures in instruction, research, public service, academic support, student services, institutional support, plant O&M, and scholarships 3. Improve articulation and transferability among all two and 4-year institutions including community colleges and tribal colleges	• Total revenue per student FTE (MT, WICHE Regional Peers) • MUS expenditures by category • Status of common course numbering initiative
3.3 Biennial review/update of the budget allocation model consistent with state and system policy goals and objectives	1. Focus on financing for the state system, not only funding for the individual campuses 2. Be transparent as to the policy choices of the Regents, Legislature, and executive branch 3. Provide a framework for dealing with allocations to institutions, tuition revenues, financial aid, and mandatory fee waivers 4. Have a specific fund dedicated to furthering Regents' priorities 5. Protect institutional viability by moderating the short-term effects of enrollment changes 6. Provide incentives for institutions to collaborate as a system 7. Ensure equity of funding among all institutions 8. Maintain an adequate base of funding and education quality for all institutions 9. Maintain a differential between 2-year and 4-year tuition	(progress on System Initiatives, 2010) • Allocation Model Review: the present "base plus" allocation model requires a comprehensive review/update. System goals, Regents' priorities, enrollment changes, performance/ outcomes and incentive funding are a few of the critical issues requiring study and analysis, as we move toward a revised allocation model.

Program Budget Comparison

The following table summarizes the total executive budget for the program by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	23.40	23.40	22.43	22.43	23.40	22.43	(0.97)	(4.15%)
Personal Services	2,083,366	2,190,847	2,088,603	2,086,521	4,274,213	4,175,124	(99,089)	(2.32%)
Operating Expenses	700,654	710,670	728,732	677,616	1,411,324	1,406,348	(4,976)	(0.35%)
Equipment & Intangible Assets	0	25,778	10,000	0	25,778	10,000	(15,778)	(61.21%)
Local Assistance	0	9,000	0	0	9,000	0	(9,000)	(100.00%)
Grants	0	0	0	0	0	0	0	n/a
Benefits & Claims	0	0	0	0	0	0	0	n/a
Transfers	35,500	48,893	35,500	35,500	84,393	71,000	(13,393)	(15.87%)
Total Costs	**$2,819,520**	**$2,985,188**	**$2,862,835**	**$2,799,637**	**$5,804,708**	**$5,662,472**	**($142,236)**	**(2.45%)**
General Fund	2,309,441	2,355,519	2,342,182	2,278,678	4,664,960	4,620,860	(44,100)	(0.95%)
Federal Special	429,663	530,146	446,274	446,537	959,809	892,811	(66,998)	(6.98%)
Other	80,416	99,523	74,379	74,422	179,939	148,801	(31,138)	(17.30%)
Total Funds	**$2,819,520**	**$2,985,188**	**$2,862,835**	**$2,799,637**	**$5,804,708**	**$5,662,472**	**($142,236)**	**(2.45%)**

Program Description

The Office of the Commissioner of Higher Education (OCHE) Administration Program includes: 1) general administration of the university system; 2) academic, financial, and legal administration; 3) labor relations and personnel administration; and 4) student assistance administration. Article X, Section 9, of the Montana Constitution requires that the Board of Regents appoints the commissioner and prescribes his/her powers and duties.

Program Highlights

OCHE Administration Program
Major Budget Highlights

- The executive reduces general fund in this program by $44,100 in the 2013 biennium compared to the 2011 biennium resulting from:
  - Permanently reducing the personal services budget 4% and reducing 0.97 FTE
  - Increasing funding for statewide present law adjustments and other present law adjustments for increased building rent and information technology costs

Program Narrative

Goals and Objectives

2013 Biennium Goal

The Legislative Finance Committee recommends that goals and objectives for the Montana University System be reviewed and monitored at the agency level. Please refer to the agency narrative for a discussion of the identified significant goals for the 2013 biennium.

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following summarizes the plan submitted for this program.

- The 5% reduction target for this program, based upon FY 2010 actual base expenditures, totals $114,506 annually
- The agency's 5% reduction plan includes a reduction of $90,798 annually, and reallocates the difference to other programs within the agency
- DP 55400 (see New Proposals) reduces general fund expenditures approximately $91,000 each year of the 2013 biennium for the executive's 4% personal services reduction for OCHE general funded programs (except programs that distribute funds to education institutions and the Board of Regents).

If the legislature adopts the 5% reduction plan for this program no further action on the decision packages is necessary.

LFD COMMENT The agency did not specify the positions that would be eliminated with the 4% personal services reduction, nor the programmatic impact of the 4% personal services reduction. Without specific information, impacts on services cannot be estimated.

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table
Administration Program

Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000 Total General Fund	$ 2,309,441	81.9%	$ 2,342,182	81.8%	$ 2,278,678	81.4%
01100 General Fund	2,309,441	81.9%	2,342,182	81.8%	2,278,678	81.4%
03000 Total Federal Special Funds	429,663	15.2%	446,274	15.6%	446,537	15.9%
03080 Che Indirect Cost Recovery	429,663	15.2%	446,274	15.6%	446,537	15.9%
06000 Total Proprietary Funds	80,416	2.9%	74,379	2.6%	74,422	2.7%
06539 Indirect Costs - Oche	80,416	2.9%	74,379	2.6%	74,422	2.7%
Grand Total	$ 2,819,520	100.0%	$ 2,862,835	100.0%	$ 2,799,637	100.0%

Funding is primarily general fund. However, about 18% of the funding in the base year was from federal and proprietary revenue to support administrative overhead activities, such as accounting and payroll, for federal grant programs and proprietary programs administered by other OCHE programs (e.g. Talent Search, GEAR-UP, Perkins, Group Insurance and MUS Workers Compensation).

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category

Budget Item	General Fund: Budget Fiscal 2012	General Fund: Budget Fiscal 2013	General Fund: Biennium Fiscal 12-13	General Fund: Percent of Budget	Total Funds: Budget Fiscal 2012	Total Funds: Budget Fiscal 2013	Total Funds: Biennium Fiscal 12-13	Total Funds: Percent of Budget
Base Budget	2,309,441	2,309,441	4,618,882	99.96%	2,819,520	2,819,520	5,639,040	99.59%
Statewide PL Adjustments	107,439	51,931	159,370	3.45%	118,013	62,811	180,824	3.19%
Other PL Adjustments	16,100	8,008	24,108	0.52%	16,100	8,008	24,108	0.43%
New Proposals	(90,798)	(90,702)	(181,500)	(3.93%)	(90,798)	(90,702)	(181,500)	(3.21%)
Total Budget	**$2,342,182**	**$2,278,678**	**$4,620,860**		**$2,862,835**	**$2,799,637**	**$5,662,472**	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					186,844					184,575
Vacancy Savings					(90,809)					(90,718)
Inflation/Deflation					(2,304)					(2,183)
Fixed Costs					24,282					(28,863)
Total Statewide Present Law Adjustments		**$107,439**	**$0**	**$16,611**	**$118,013***		**$51,931**	**$0**	**$16,874**	**$62,811***
DP 101 - Program 01 Operating Adjustment	0.00	16,100	0	0	16,100	0.00	8,008	0	0	8,008
Total Other Present Law Adjustments	**0.00**	**$16,100**	**$0**	**$0**	**$16,100**	**0.00**	**$8,008**	**$0**	**$0**	**$8,008**
Grand Total All Present Law Adjustments	**0.00**	**$123,539**	**$0**	**$16,611**	**$134,113***	**0.00**	**$59,939**	**$0**	**$16,874**	**$70,819***

* "Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

Program Personal Services Narrative

The agency did not provide a program level personal services narrative. Please refer to the agency narrative for a discussion of the Office of the Commissioner of Higher Education pay plan and personal services costs.

DP 101 - Program 01 Operating Adjustment - The executive budget includes an additional $24,108 general fund in the 2013 biennium for increased rent and information technology support. Rent is budgeted to increase $5,648 and the remaining $18,460 is allocated for increased bandwidth and replacement servers. ITSD has agreed to increase bandwidth at a biennial cost of $8,460 and replacement servers for data warehouses and other OCHE operations are estimated at $10,000.

LFD COMMENT

Total building rent for the agency is budgeted to increase $38,773 for the 2013 biennium compared to the FY 2010 base year expenditures. The Administration Program is allocated $5,648, or 15% of the budgeted rent increase.

New Proposals

The "New Proposals" table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals	Fiscal 2012					Fiscal 2013				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 55400 - 4% Personal Services reduction										
01	(0.97)	(90,798)	0	0	(90,798)	(0.97)	(90,702)	0	0	(90,702)
Total	**(0.97)**	**($90,798)**	**$0**	**$0**	**($90,798)**	**(0.97)**	**($90,702)**	**$0**	**$0**	**($90,702)**

DP 55400 - 4% Personal Services reduction - The executive budget reduces the Administration Program budget by approximately $181,500 in the 2013 biennium. The executive recommends a 4% reduction of personal services funded with general fund and the permanent reduction of 0.97 FTE from this program.

LFD COMMENT	Personal service reductions total nearly $91,000 each year, and reflect the executive's 4% personal services reductions for the administration program, the student assistance program, and the American Indian/Minority Achievement program The agency did not specify the programmatic impact of the personal services reduction

Program Budget Comparison

The following table summarizes the total executive budget for the program by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	1.50	1.50	1.50	1.50	1.50	1.50	0.00	0.00%
Personal Services	93,243	138,207	111,831	111,709	231,450	223,540	(7,910)	(3.42%)
Operating Expenses	48,332	47,024	48,337	48,342	95,356	96,679	1,323	1.39%
Local Assistance	125,000	130,000	125,000	125,000	255,000	250,000	(5,000)	(1.96%)
Grants	12,170,406	14,189,968	13,365,688	13,710,854	26,360,374	27,076,542	716,168	2.72%
Total Costs	**$12,436,981**	**$14,505,199**	**$13,650,856**	**$13,995,905**	**$26,942,180**	**$27,646,761**	**$704,581**	**2.62%**
General Fund	12,145,759	14,207,999	12,482,722	12,827,842	26,353,758	25,310,564	(1,043,194)	(3.96%)
State Special	100,783	101,027	101,895	101,824	201,810	203,719	1,909	0.95%
Federal Special	190,439	196,173	1,066,239	1,066,239	386,612	2,132,478	1,745,866	451.58%
Total Funds	**$12,436,981**	**$14,505,199**	**$13,650,856**	**$13,995,905**	**$26,942,180**	**$27,646,761**	**$704,581**	**2.62%**

Program Description

There are three distinct components to the Student Assistance Program (governed by Title 20, Chapters 25 and 26, MCA):

- The grant, loan, and work-study programs consist of financial need-based criteria for student awards as well as the merit-based component of the Governor's Postsecondary Scholarship Program, as follows:
  - The federal Leveraging Educational Assistance Partnership (LEAP) grant is matched by the state Baker grant program
  - The federal Supplemental Leveraging Educational Assistance Partnership (SLEAP) grant is matched by the Montana Higher Education Grant (MHEG) program
  - The federal Supplemental Educational Opportunity Grant (SEOG) program send funds directly to MUS campuses and is matched by state general fund
  - The Perkins Federal Loan program send funds directly to MUS campuses and is matched by state general fund
  - The Work Study Program is funded 70% from general fund with a 30% employer match
  - The Governor's Postsecondary Scholarship Program has both a need-based and merit component, both of which are supported entirely by general fund (20-26-601,MCA)
- The interstate student exchange and assistance programs have no financial need-based criteria for participants, and are entirely general fund programs that include:
  - The Western Undergraduate Exchange/Western Regional Graduate Program allows students from 14 participating states to enroll in designated postsecondary schools and pay reduced tuition rates that are less than the non-resident rate. These programs are part of the MUS membership agreement with the Western Interstate Commission for Higher Education (WICHE)
  - The WICHE Professional Student Exchange Program enables Montana students to enroll in 8 professional graduate studies programs in 13 participating states at reduced tuition rates as Montana pays negotiated support fees to subsidize students, who pay reduced tuition
  - The Washington, Wyoming, Alaska, Montana, and Idaho Cooperative Program (WWAMI) enables Montana students to attend the University of Washington School of Medicine at a reduced tuition rate as Montana pays a negotiated support fee to subsidize students
  - The Minnesota Dental Program enables Montana students to attend the University of Minnesota Dental School at a reduced tuition rate as Montana pays a negotiated support fee to subsidize students

- Two student loan repayment assistance programs, both of which are funded entirely from general fund:
  - The Quality Educator Loan Assistance Program (Chapter 20, Part 4 MCA) was created in 2007 with the objective of attracting public school teachers to underserved Montana school districts by providing state funding assistance to help those teachers pay outstanding student loans. A qualifying educator is eligible for loan assistance for a maximum of four years up to $3,000 per year, subject to an appropriation expressly established for this purpose
  - The Institutional Nursing Incentive Program (20-26-1511, MCA) was created in HB 224 by the 2009 Legislature with the objective of attracting and retaining registered professional nurses to work in the Montana State Prison or Montana State Hospital by providing state funding assistance to help those nurses pay outstanding student loans. A qualifying nurse is eligible for loan assistance for a maximum of four years up to $3,750 per year, subject to available appropriations

Program Highlights

Student Assistance Program Major Budget Highlights
♦ The executive budget proposes to increase the budget 2.6% in the 2013 biennium ♦ Present law increases are included for the Governor's postsecondary scholarship program, the quality educator loan assistance program, and the WICHE/WWAMI/MN Dentistry programs ♦ The executive proposes $500,000 general fund for dual enrollment ♦ The executive proposes backfilling general fund reductions with federal funds from the guaranteed student loan program
Legislative Action Issues
♦ The legislature may wish to consider implementing service payback requirements on professional student exchange programs such as WICHE to improve the state's return on its investment in these programs

Program Narrative

The 2013 biennium proposed executive budget would increase funding for the student assistance program 2.6% from the 2011 biennium.

The executive includes present law increases for the Governor's postsecondary scholarship program, quality educator loan assistance program, and WICHE/WWAMI/MN Dentistry program totaling $1.6 million. In addition, other present law adjustments are proposed for administrative cost reimbursements to the guaranteed student loan program, and increased administrative costs funded from state special revenue for the family education savings program.

The executive includes two new proposals for the student assistance program. The Governor continues the FY 2011 17-7-140 general fund reduction, but backfills the general fund reduction with federal funds from the guaranteed student loan program. The Governor also proposes a $250,000 per year general fund increase for dual enrollment programs.

Goals and Objectives

2013 Biennium Goal

The Legislative Finance Committee recommends that goals and objectives for the Montana University System be reviewed and monitored at the agency level. Please refer to the agency narrative for a discussion of the identified significant goals for the 2013 biennium.

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following summarizes the plan submitted for this program.

- The 5% reduction target for this program, based upon FY 2010 actual base expenditures, totals $607,228 annually
- The agency's 5% reduction plan includes a reduction of $875,800 annually as the agency plan reallocates reductions from other programs to the student assistance program
    - The agency's plan indicates that the WICHE/WWAMI/MN Dentistry programs, the Governor's postsecondary scholarship program, and the quality educator loan forgiveness program would be impacted by a 5% base reduction. The plan does not specify the amount of reduction by program
- The executive budget includes an annual $875,800 general fund reduction, but backfills the reduction with a like amount of federal funds from the guaranteed student loan program, resulting in no fiscal impact to this program from general fund reductions
    - The executive budget notes that the backfill is intended to fund the WICHE/WWAMI/MN Dental programs and the quality educator loan forgiveness program

If the legislature adopts the 5% reduction plan, no further action is required on DP 55140, unless the legislature wants to approve the executive's proposal to backfill the 5% general fund reduction with federal funds.

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table
Student Assistance Program

Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000 Total General Fund	$ 12,145,759	97.7%	$ 12,482,722	91.4%	$ 12,827,842	91.7%
01100 General Fund	12,145,759	97.7%	12,482,722	91.4%	12,827,842	91.7%
02000 Total State Special Funds	100,783	0.8%	101,895	0.7%	101,824	0.7%
02846 Family Ed Savings Admin Fee	100,783	0.8%	101,895	0.7%	101,824	0.7%
03000 Total Federal Special Funds	190,439	1.5%	1,066,239	7.8%	1,066,239	7.6%
03164 State Student Incentive Grant	190,439	1.5%	190,439	1.4%	190,439	1.4%
03400 Guaranteed Stdt. Loan-Admin.	-	-	875,800	6.4%	875,800	6.3%
Grand Total	$ 12,436,981	100.0%	$ 13,650,856	100.0%	13,995,905	100.0%

The Student Assistance Program is funded primarily from general fund, with additional federal matching funds, as well as some state special revenue to administer the college savings program.

Federal funds are granted to the states as an incentive and are required to be matched by general fund dollars. In both LEAP and SLEAP, state general fund appropriations (the MHEG and Baker grant programs) exceed the one-to-one match requirement. The executive budget includes the addition of federal revenue from the guaranteed student loan program.

Both the Governor's Postsecondary Scholarship Program and the Quality Educator Loan Assistance Program are funded entirely from state general fund. The WICHE/WWAMI/MN Dental programs are completely state general fund. Work-study is 70% general fund with a 30% employer match. The employers' portion of the work-study program is not included in HB 2.

The figure below illustrates the funding levels for each of the student financial assistance programs for the 2011 biennium and the executive funding proposal for the 2013 biennium.

Student Financial Assistance Programs Fiscal 2010 through 2013						
Program	Actual FY 2010	Approp FY 2011	Exec. Budget FY 2012	Exec. Budget FY 2013	Biennial $ Change	Biennial % Change
Funded with General Fund:						
Baker Grants	$2,041,990	$2,041,990	$2,041,990	$2,041,990	$0	0.0%
MT Higher Education Grant (MHEG)	553,088	568,767	553,088	553,088	(15,679)	-1.4%
SEOG *	438,449	422,770	438,449	438,449	15,679	1.8%
Perkins Loan *	68,292	68,280	68,292	68,292	12	0.0%
State Work Study	862,989	862,989	862,989	862,989	0	0.0%
Governor's Postsecondary Scholarships	2,393,000	2,507,000	2,500,000	2,500,000	100,000	2.0%
Quality Educator Loan Assistance	479,909	1,635,985	972,989	1,215,943	73,038	3.5%
Loan Reimbursement MSH/MSP Nursing	36,307	37,193	36,307	36,307	(886)	-1.2%
WICHE/WWAMI/MN Dentistry	5,239,098	6,029,742	5,601,134	5,703,300	35,594	0.3%
Program Administration	32,637	33,283	33,284	33,284	648	1.0%
DP207 Dual Enrollment			250,000	250,000	500,000	
DP55140 Carryforward Governor's 17-7-140 Reduction			(875,800)	(875,800)	(1,751,600)	
Subtotal General Fund	$12,145,759	$14,207,999	$12,482,722	$12,827,842	($1,043,194)	-4.0%
Federal Matching Funds:						
SLEAP Grant Program (Baker Match)	$104,243	$106,255	$104,243	$104,243	($2,012)	-1.0%
LEAP Grant Program (MHEG Match)	86,196	89,918	86,196	86,196	(3,722)	-2.1%
Subtotal Federal Matching Funds	$190,439	$196,173	$190,439	$190,439	($5,734)	-1.5%
Federal Fund Switch Proposed in Executive Budget:						
DP55140 Carryforward Governor's 17-7-140 Reduction			$875,800	$875,800	$1,751,600	
Funded with State Special Revenue:						
Family Education Savings Administration	$100,783	$101,027	$101,895	$101,824	$1,909	0.9%
Total Funds	$12,436,981	$14,505,199	$13,650,856	$13,995,905	$704,581	2.6%

* Represents the state match. The federal matching funds are distributed directly to university campuses.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	12,145,759	12,145,759	24,291,518	95.97%	12,436,981	12,436,981	24,873,962	89.97%
Statewide PL Adjustments	(15,803)	(15,849)	(31,652)	(0.13%)	(31,942)	(32,059)	(64,001)	(0.23%)
Other PL Adjustments	978,566	1,323,732	2,302,298	9.10%	995,817	1,340,983	2,336,800	8.45%
New Proposals	(625,800)	(625,800)	(1,251,600)	(4.94%)	250,000	250,000	500,000	1.81%
Total Budget	**$12,482,722**	**$12,827,842**	**$25,310,564**		**$13,650,856**	**$13,995,905**	**$27,646,761**	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					(29,393)					(29,520)
Vacancy Savings					(2,554)					(2,549)
Inflation/Deflation					177					182
Fixed Costs					(172)					(172)
Total Statewide Present Law Adjustments		**($15,803)**	**($16,139)**	**$0**	**($31,942)**		**($15,849)**	**($16,210)**	**$0**	**($32,059)**
DP 201 - WICHE/WWAMI/MN Dental	0.00	362,036	0	0	362,036	0.00	464,202	0	0	464,202
DP 202 - Governor's Post Secondary Scholarship Program	0.00	107,000	0	0	107,000	0.00	107,000	0	0	107,000
DP 203 - Quality Educator Loan Forgiveness	0.00	476,246	0	0	476,246	0.00	719,246	0	0	719,246
DP 204 - GSL Reimbursement	0.00	33,284	0	0	33,284	0.00	33,284	0	0	33,284
DP 205 - Family Education Savings Plan	0.00	0	17,251	0	17,251	0.00	0	17,251	0	17,251
Total Other Present Law Adjustments	**0.00**	**$978,566**	**$17,251**	**$0**	**$995,817**	**0.00**	**$1,323,732**	**$17,251**	**$0**	**$1,340,983**
Grand Total All Present Law Adjustments	**0.00**	**$962,763**	**$1,112**	**$0**	**$963,875**	**0.00**	**$1,307,883**	**$1,041**	**$0**	**$1,308,924**

Program Personal Services Narrative

The agency did not provide a program level personal services narrative. Please refer to the agency narrative for a discussion of the Office of the Commissioner of Higher Education pay plan and personal services costs.

DP 201 - WICHE/WWAMI/MN Dental - The executive budget would add $826,238 general fund in the 2013 biennium to fund first year students and continuing students at anticipated tuition levels for the WICHE, WWAMI, and MN Dental professional student exchange programs. The table below illustrates the adjustment for each program:

WICHE/WWAMI/MN Dental Program
Present Law Adjustments - 2013 Biennium Executive Budget (DP 201)

	FY 2010 Actuals	FY 2011 Budgeted	FY 2012 Exec Budget	FY 2013 Exec Budget	Present Law Adjustments FY 2012	Present Law Adjustments FY 2013
WICHE Annual Dues	$ 125,000	$ 130,000	$ 125,000	$ 125,000	$ -	$ -
WICHE Student Support	2,109,467	2,227,833	2,262,934	2,199,700	153,467	90,233
WWAMI Student Support	2,916,631	3,259,909	3,121,200	3,261,600	204,569	344,969
MN Dental Student Support	88,000	136,200	92,000	117,000	4,000	29,000
Total	$5,239,098	$5,753,942	$5,601,134	$5,703,300	$362,036	$464,202

LFD COMMENT

The present law increase in the professional student interstate exchange programs (WICHE/WWAMI/MN Dental) is caused by rising tuition rates at participating universities. As tuition rates increase, state support fees paid on behalf of Montana students increase. For the 2013 biennium, state support fees increase an average of $1,788 per student slot in FY 2012 and $3,000 per student slot in FY 2013, as compared to base year FY 2010 fees. In FY 2010, 166 student slots were funded. The executive budget proposes funding 168 slots for FY 2012 and 165 slots for FY 2013.

State support fees, based upon tuition rates, are negotiated by an interstate council upon which Montana is represented by the Commissioner of Higher Education and members of the legislature. Once negotiated and agreed upon, the legislature has no further control over these support fees so that any changes in expenditure levels in this program would require adjustments to the number of student slots that would be funded in the biennium.

The total costs for these programs are detailed in the figure below, which illustrates the number of student slots by profession and the state support fee for each.

2013 Biennium Executive Budget Proposal
WICHE/WWAMI/MINNESOTA Dental Programs
Office of the Commissioner of Higher Education

	FY 2012						FY 2013					
	Support	New (1st Year)		Continuing			Support	New (1st Year)		Continuing		
PROGRAM	Fee	Students	Cost	Students	Cost	Total	Fee	Students	Cost	Students	Cost	Total
WICHE												
Administrative Dues			$125,000			$125,000			$125,000			$125,000
Student Assistance:												
Medicine	$29,700	6	$178,200	19	$564,300	$742,500	$30,200	6	$181,200	18	$543,600	$724,800
Osteopathic Medicine	19,700	2	39,400	5	98,500	137,900	20,000	1	20,000	5	100,000	120,000
Dentistry	23,000	1	23,000	8	184,000	207,000	23,400	1	23,400	6	140,400	163,800
Veterinary Medicine	29,500	9	265,500	27	796,500	1,062,000	30,000	9	270,000	27	810,000	1,080,000
Podiatry	13,700	1	13,700	0	0	13,700	13,900	0	0	1	13,900	13,900
Optometry	15,800	1	15,800	2	31,600	47,400	16,100	1	16,100	3	48,300	64,400
Occupational Therapy	12,100	1	12,100	2	40,334	52,434	12,300	1	12,300	1	20,500	32,800
(Includes 1 @ clinical rate $20,167 for FY 12 and $20,500 for FY 13)												
Subtotal (WICHE Student Support)		21	$547,700	63	$1,715,234	$2,262,934		19	$523,000	61	$1,676,700	$2,199,700
TOTAL WICHE (Including Dues)						$2,387,934						$2,324,700
MINNESOTA DENTAL	23,000	2	46,000	2	46,000	92,000	23,400	2	46,800	3	70,200	117,000
WWAMI	52,020	20	0	60	3,121,200	3,121,200	54,360	20	0	60	3,261,600	3,261,600
TOTAL WICHE/WWAMI/MN DENTAL		43	$718,700	125	$4,882,434	$5,601,134		41	$694,800	124	$5,008,500	$5,703,300

Notes:

1) Rates for all continuing occupational therapy students are calculated at 1 2/3 the annual support fee to include support for two clinical rotations. ($20,167 for FY 2012; $20,500 for FY 2013)

2) The WWAMI support fee is calculated as an average per continuing student. Actual support varies by program year.

LFD ISSUE

Professional Student Exchange Program Service Payback Requirements

Some rural states view the professional student exchange programs strictly as a means to provide access for their residents to obtain a medical education, at an overall cost to the state that is less than the cost of a medical school. Other rural states also add a requirement of service payback. A recent report[1] from the Western Interstate Commission on Higher Education (WICHE) indicates that the return rates of students from rural states that participated in the professional student exchange programs were lowest in states that do not require a service payback. Montana does not require a service payback for students that participate in WICHE or the WWAMI and Minnesota Dental programs. The most recent year for which data are available shows that the return rate of WICHE students in Montana is 48%, compared to an average return rate of 74% for WICHE states that do require a service payback. The executive budget includes approximately $11.0 million in the 2013 biennium for support fees for students to participate in WICHE, WWAMI, and Minnesota Dental programs. The legislature may wish to consider implementing a service payback requirement, including consequences for failing to meet service requirements, for these programs to improve the state's return on its investment in these programs.

The table summarizes the return rate, service payback requirements, and penalty for failure to serve payback terms in each WICHE state:

Service Payback Requirements for Professional Student Exchange Programs in WICHE States (1)

State	Return Rate (3)	Service Payback Requirement	Failure to Serve Payback Terms
Alaska(2)	50%	None	Full Amount with interest
Arizona	76%	Year for year of support; ½ year for each year if in underserved area	50% of the funds expended plus interest
Colorado	71%	Year for year of support	Full amount with interest
Hawaii	Not reported	Yes, effective 2008. Year for year of support	Full amount with interest
Idaho	36%	None	N/A
Montana	48%	None	N/A
Nevada	69%	Year for year of support	25% of support fee; loan fund available
New Mexico	73%	Year for year of support	Up to 3 times the support paid plus interest
North Dakota	Not reported	None	N/A
Utah	56%	None	N/A
Washington	70%	Greater of either 3 years, or 1 year for each year of support	Full amount with interest
Wyoming	27%	No	N/A

Table Notes:
(1) E-mail from Margo Colalancia, Director, Student Exchange, WICHE, November 17, 2010
(2) Alaska requires students to repay all support fees paid on their behalf plus interest. There is no service payback requirement.
(3) A "snapshot" in time of professional student exchange program alumni who graduated between 2001 and 2005 and who were licensed and/or practicing in their home state (as of December 2006 to November 2007, depending on when the state researched its graduates and returned its data). WICHE Statistical Report, pgs. 14-15.

A state's return on investment in professional student exchange programs can be measured in terms of ability to meet workforce needs and a monetary payback in the event a student chooses to not return to his/her home state. Implementing a service payback in Montana may increase the return rate of students participating in the professional student exchange programs, as evidenced by other WICHE states that have a service payback requirement in force. An increased return rate may help address Montana's projected increasing need for physicians.[2]

[1] Western Interstate Commission for Higher Education, "Student Exchange Programs Statistical Report, Academic Year 2009-10", January 2010, pgs 13-15. Accessed November 15, 2010. http://www.wiche.edu/studentExchange.

[2] Montana Department of Labor and Industry, Research & Analysis Bureau, "Montana Job Projections 2008 – 2018". Accessed December 6, 2010. www.ourfactsyourfuture.org

LFD ISSUE CONT.

Implementing a service payback requirement for participation in a professional student exchange program may require additional administrative resources (staff, information systems) than are currently dedicated to the program. A service payback requirement would require that program staff keep track of participants, and participants would have to agree to participate in new processes that would allow them to be tracked. An estimate of any additional costs to implement a service payback requirement is not presently known.

Options:

- Request that the agency identify additional administrative costs necessary to implement a service payback requirement for the professional student exchange programs
- Request draft legislation that would implement a service payback requirement for the professional student exchange programs
- Accept both options 1 and 2
- Take no action

DP 202 - Governor's Post Secondary Scholarship Program - The executive budget would add $214,000 general fund in the 2013 biennium to establish the biennial budget for this scholarship program at $5,000,000.

LFD COMMENT

The Governor's Postsecondary Scholarship Program was created in the 2005 session and students began receiving scholarships in the 2005-2006 academic year. Scholarships are renewable and may be used at both two-year and four-year institutions. The legislature funded this program at $5.0 million for the 2011 biennium. The agency allocated $50,000 of the 2% across-the-board general fund reduction imposed by the 2009 Legislature for the 2011 biennium on this program. The executive budget would restore the original 2011 biennium budget.

DP 203 - Quality Educator Loan Forgiveness - The executive budget would add $1.2 million general fund in the 2013 biennium to fund the current and projected pipeline of students in the program. The executive budget anticipates providing loan assistance to 100 new teachers each year of the 2013 biennium in addition to those teachers already in the pipeline.

LFD COMMENT

This program was created in 2007 as an incentive for teachers to teach at underserved school districts in Montana. A qualifying educator is eligible for loan assistance for a maximum of four years up to $3,000 per year, subject to an appropriation expressly established for the program. The table below summarizes the number of new and returning teachers that have received loan assistance from this program since FY 2008 and the program cost. This program is funded entirely from general fund.

Quality Educator Loan Forgiveness Assistance Program
FY 2008 through FY 2013

FY	New	Return Y2	Return Y3	Return Y4	Total Awarded	Cost		$/Award
2008	104				104	$ 307,280	Actual	$ 2,955
2009	37	79			116	$ 330,785	Actual	$ 2,852
2010	101	21	41		163	$ 471,754	Actual	$ 2,894
2011 est	100	97	19	35	251	$ 738,000	Op Budget	$ 2,940
2012 est	100	100	97	19	316	$ 948,000	Exec Budge	$ 3,000
2013 est	100	100	100	97	397	$ 1,191,000	Exec Budge	$ 3,000

This table tracks GRANTS only. Administrative costs are excluded.

As shown in the table, the number of teachers receiving assistance dropped off significantly in FY 2009 but has since increased to the number originally estimated for the program.

LFD COMMENT CONT.

The cohort of teachers that received assistance starting in 2008 (104 teachers) was down to 41 teachers receiving assistance in FY 2010, an approximate 39% retention rate. In order to meet the executive budget 2013 biennium projections for teachers served and appropriation needed, the retention rate for students initially served in FY 2010 would have to remain at 96% for the subsequent 3 years and students initially served in FY 2011 - 2013 would have to remain at 100%. The legislature may want to look at this program to determine if it is likely that retention rates will increase that dramatically from the 2011 biennium.

DP 204 - GSL Reimbursement - The executive budget would add $66,568 general fund for the 2013 biennium for estimated costs to be paid to the Montana Guaranteed Student Loan Program (MGSLP), where administrative support is provided for a number of student assistance programs, including the High School Honors Fee Waiver, the Governor's Postsecondary Scholarship Program, the Montana Higher Education Grant, and the Baker Grant.

LFD COMMENT

The executive budget proposes in DP 55140 to use federal funds from the guaranteed student loan program to backfill general fund reductions to student assistance programs. DP 204 proposes to use general fund to reimburse the guaranteed student loan program for costs incurred in administering some of the student assistance programs. The legislature may want to clarify why this reimbursement is necessary, given the executive budget proposal in DP 55140.

DP 205 - Family Education Savings Plan - The executive budget would add $34,502 state special revenue in the 2013 biennium for increased personal services related to the administration of the Family Education Savings Program.

New Proposals

The "New Proposals" table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals	Fiscal 2012						Fiscal 2013				
Program	FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Federal Special	Total Funds
DP 207 - Dual Enrollment											
02	0.00	250,000	0	0	250,000		0.00	250,000	0	0	250,000
DP 55140 - Carry forward FY 11 17-7-140 reductions											
02	0.00	(875,800)	0	875,800	0		0.00	(875,800)	0	875,800	0
Total	**0.00**	**($625,800)**	**$0**	**$875,800**	**$250,000**		**0.00**	**($625,800)**	**$0**	**$875,800**	**$250,000**

DP 207 - Dual Enrollment - The executive proposes adding $250,000 general fund each year of the 2013 biennium for tuition assistance and scholarships relating to dual enrollment. The executive proposes that the funding is contingent upon development of common tuition and fee structures across the MUS for dual enrollment courses.

DP 55140 - Carry forward FY 11 17-7-140 reductions - This decision package carries forward $875,800 of the general fund reduction made in FY 2011 to meet 17-7-140 into FY 2012 and FY 2013 and backfills the reduction by a like amount of an increase in federal funds from the guaranteed student loan program.

LFD COMMENT

See the 5% Reduction Plan section for more information on this proposal.

Program Budget Comparison

The following table summarizes the total executive budget for the program by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
Personal Services	16,350	14,432	15,000	30,000	30,782	45,000	14,218	46.19%
Operating Expenses	1,049	4,957	3,050	5,050	6,006	8,100	2,094	34.87%
Grants	221,510	209,285	221,510	221,510	430,795	443,020	12,225	2.84%
Total Costs	**$238,909**	**$228,674**	**$239,560**	**$256,560**	**$467,583**	**$496,120**	**$28,537**	**6.10%**
Federal Special	238,909	228,674	239,560	256,560	467,583	496,120	28,537	6.10%
Total Funds	**$238,909**	**$228,674**	**$239,560**	**$256,560**	**$467,583**	**$496,120**	**$28,537**	**6.10%**

Program Description

Improving Teacher Quality is a federally funded grant program providing awards to fund partnerships between higher education and high-need K-12 school districts in order to provide professional development and teacher training that improves teaching methods and teaching skills in the classroom.

Program Highlights

Improving Teacher Quality Program
Major Budget Highlights

- The executive budget increases the federal appropriation authority 6% from the 2011 biennium to the anticipated federal grant level

Program Narrative

Goals and Objectives

2013 Biennium Goal

The Legislative Finance Committee recommends that goals and objectives for the Montana University System be reviewed and monitored at the agency level. Please refer to the agency narrative for a discussion of the identified significant goals for the 2013 biennium.

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table
Improving Teacher Quality

Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
03000 Total Federal Special Funds	$ 238,909	100.0%	$ 239,560	100.0%	$ 256,560	100.0%
03183 Ed For Econ Security Grant	238,909	100.0%	239,560	100.0%	256,560	100.0%
Grand Total	$ 238,909	100.0%	$ 239,560	100.0%	$ 256,560	100.0%

Funding is entirely from the federal Improving Teacher Quality grants. The executive budget increases the appropriation authority by 6.1% in the 2013 biennium compared to the 2011 biennium to spend the anticipated amount of the federal grant.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	0	0	0	0.00%	238,909	238,909	477,818	96.31%
Statewide PL Adjustments	0	0	0	0.00%	(16,349)	(16,349)	(32,698)	(6.59%)
Other PL Adjustments	0	0	0	0.00%	17,000	34,000	51,000	10.28%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	**$0**	**$0**	**$0**		**$239,560**	**$256,560**	**$496,120**	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					(16,350)					(16,35
Inflation/Deflation					1					
Total Statewide Present Law Adjustments		**$0**	**$0**	**($16,349)**	**($16,349)**		**$0**	**$0**	**($16,349)**	**($16,34**
DP 301 - Improving Teacher Quality	0.00	0	0	17,000	17,000	0.00	0	0	34,000	34,0
Total Other Present Law Adjustments	**0.00**	**$0**	**$0**	**$17,000**	**$17,000**	**0.00**	**$0**	**$0**	**$34,000**	**$34,0**
Grand Total All Present Law Adjustments	**0.00**	**$0**	**$0**	**$651**	**$651**	**0.00**	**$0**	**$0**	**$17,651**	**$17,6**

Program Personal Services Narrative

The agency did not provide a program level personal services narrative. Please refer to the agency narrative for a discussion of the Office of the Commissioner of Higher Education pay plan and personal services costs.

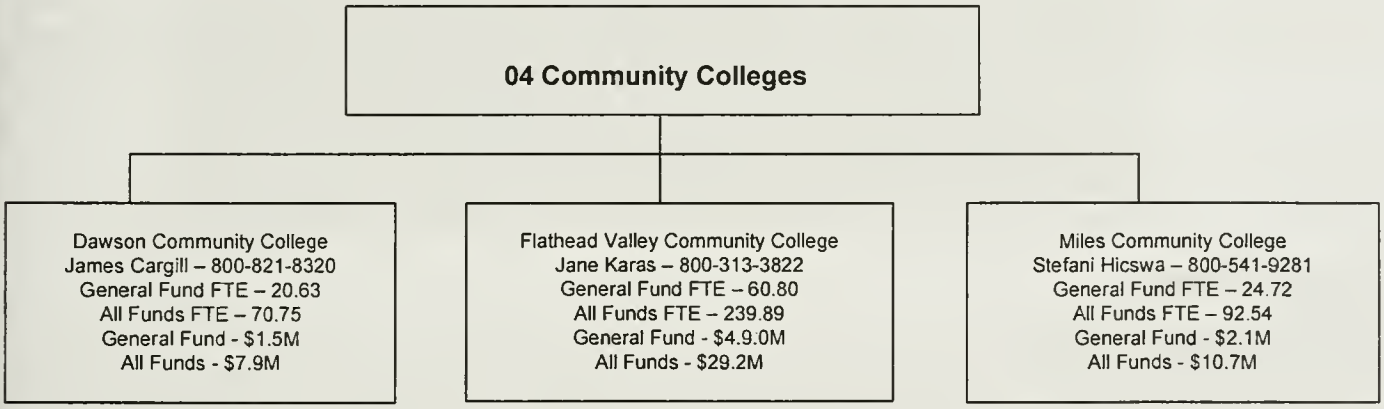
DP 301 - Improving Teacher Quality - The executive budget requests a biennial $51,000 adjustment for this program in the 2013 biennium to increase federal special revenue to the anticipated amount of the federal grant.

Program Budget Comparison

The following table summarizes the total executive budget for the program by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
Local Assistance	8,562,831	8,735,483	11,410,186	11,299,393	17,298,314	22,709,579	5,411,265	31.28%
Total Costs	**$8,562,831**	**$8,735,483**	**$11,410,186**	**$11,299,393**	**$17,298,314**	**$22,709,579**	**$5,411,265**	**31.28%**
General Fund	8,562,831	8,735,483	11,410,186	11,299,393	17,298,314	22,709,579	5,411,265	31.28%
Federal Special	0	0	0	0	0	0	0	n/a
Total Funds	**$8,562,831**	**$8,735,483**	**$11,410,186**	**$11,299,393**	**$17,298,314**	**$22,709,579**	**$5,411,265**	**31.28%**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Program Description

The Community College Assistance program distributes funds appropriated by the legislature to support Montana's three community colleges:

- Dawson Community College located in Glendive
- Flathead Valley Community College located in Kalispell and Libby
- Miles Community College located in Glendive

Each community college district has an elected board of trustees who have governance authority over the college, but the trustees are subject to the supervision of the Board of Regents, as directed by Title 20, Chapter 15, MCA.

The funding formula and methodology for the state general fund appropriation to the community colleges is outlined in statute at 20-15-312, MCA. The general operating budgets of the community colleges are funded from a state general fund appropriation, student tuition and fees, a mandatory property tax levy, an optional voted levy, and other miscellaneous funds. Only the state general fund appropriation is appropriated in HB 2.

Program Highlights

Community College Assistance Major Budget Highlights
◆ The executive budget would increase ongoing general fund 31% in the 2013 biennium, primarily due to: • Projected enrollment increases of 15% • Replacing HB 645 one-time-only funding from the 2011 biennium with ongoing general fund in the 2013 biennium ◆ The executive budget proposes to set the state percent share for community colleges at 50.8% in the 2013 biennium, the same level used by the 2009 Legislature ◆ The executive budget carries forward general fund reductions from FY 2011 ◆ The executive budget funds costs associated with two community colleges migrating to Banner Management Information System software
Major LFD Issues
◆ Optimistic enrollment projections overstate the amount of general fund needed in the 2013 biennium ◆ The executive budget contains a technical error that has the impact of overstating the amount of general fund needed in the 2013 biennium

Program Narrative

Statutory Funding Formula

The general fund appropriation level is determined, as defined by 20-15-312, MCA, by a three-factor funding formul that is a calculation of the cost of education, the resident student enrollment level, and the state percent share of fundin that is determined by the legislature as a matter of public policy. This formula is stated mathematically and the factor are defined as follows:

[(Projected Resident Student Enrollment x Variable Cost of Education per Student) + Fixed Cost of Education] x Stat Percent Share = State General Fund Budget

- o Projected Resident Student Enrollment – the aggregated resident FTE count that the three colleges project fo each year of the proposed biennial budget
- o Variable Cost of Education per Student – the total variable costs for the base year divided by the actual FT student enrollment for the base year (both derived from CHE operating budget)
- o Fixed Cost of Education – the total fixed costs for the base year (derived from CHE operating budget)
- o State Percent Share – the percent of the fixed+variable cost calculation that the legislature decides, as a matter o public policy, to support with a state appropriation. The state percent share factor is the mechanism throug which the legislature exercises public policy in this formula, as the percent level established is purely a matter o the public policy decision the legislature makes based upon available state revenue and the amount of fundin the legislature determines that state government should support Montana resident students attending communit colleges

The total cost of education is rebased each biennium from the actual base year expenditures reported by the communit colleges in the annual operating budgets submitted to and approved by the Montana Board of Regents. These base yea

expenditures are adjusted for one-time-only expenditures, such as the $1.4 million of one-time-only expenditures from HB 645, the federal and state stimulus bill approved by the 2009 Legislature for the 2011 biennium.

LFD COMMENT

The community college funding formula outlined in Section 20-15-312, MCA was enacted in 2007 following a year-long study by the Legislative Finance Committee. This formula replaced a statutory formula that had been in place for almost 30 years. The final report from the 2005-2006 study recommended that the fixed/variable ratio used in the funding formula be reviewed and updated every third biennium (every six years). The Legislative Finance Committee accepted this recommendation. Therefore, the fixed/variable ratio used in the community college funding formula should be reviewed prior to the 2015 biennium budget development.

Executive Budget Recommendation

The executive budget would increase ongoing state funding for the community colleges by 31% in the 2013 biennium. This is caused primarily by two factors: 1) a projected 15% increase in resident FTE enrollment at the community colleges; and 2) replacing one-time-only funding from the 2011 biennium with ongoing funding in the 2013 biennium.

The executive used the statutory community college funding formula to develop its 2013 biennium proposed budget for the community colleges. The executive budget used the community college resident student enrollment projections for 2,890 FTE in FY 2012 and 2,838 FTE in FY 2013 in the formula calculations, which represents a 15% increase from the resident FTE enrollment used by the 2011 Legislature.

The executive budget also proposes to replace $2.9 million of the HB 645 one-time-only appropriations with ongoing general fund in the 2013 biennium. The executive would set the state percent share at 50.8%, which is the percentage applied by the 2009 Legislature.

In addition to the statutory formula calculations, the executive budget recommends adding a net $8,382 for increased costs associated with migrating to Banner Management Information Software (the same software used by the MUS education units and agencies) and a general fund reduction to continue general fund reductions made in FY 2011 under the provisions of MCA 17-7-140, Governor's reductions. Overall, the executive budget would increase ongoing state funding for the community colleges by 31% in the 2013 biennium.

Community College Assistance Program -- 2013 Biennium Executive Budget Proposal

	Base FY 2010	Approp FY 2011	EB Proposed Adjustments FY 2012	Executive Budget FY 2012	EB Proposed Adjustments FY 2013	Executive Budget FY 2013	2011 Biennium Total	2013 Biennium Total	Biennial % Change
Dawson Community College	$1,537,986	$1,562,284	$316,910	$1,854,896	$295,339	$1,833,325	$3,100,270	$3,688,221	19.0%
Flathead Valley Community College	4,940,910	5,050,717	2,251,011	7,191,921	2,180,235	7,121,145	9,991,627	14,313,066	43.3%
Miles Community College	2,083,935	2,122,482	279,434	2,363,369	260,988	2,344,923	4,206,417	4,708,292	11.9%
Grand Total	$8,562,831	$8,735,483	$2,847,355	$11,410,186	$2,736,562	$11,299,393	$17,298,314	$22,709,579	31.3%

Source: SABHRS data for base year expenditures and the Executive 2013 Biennium Budget

Legislative Fiscal Division Analysis of Executive Budget Recommendation

The LFD has identified two issues with the executive budget recommendation, resulting in a cumulative biennial general fund requirement that is $68,214 lower than the executive budget. The issues, discussed briefly below, are that enrollment projections at one of the community colleges may be overly optimistic and the executive budget calculations contain a technical error that has the impact of overstating the amount of general fund needed in the 2013 biennium.

LFD ISSUE

Optimistic Enrollment Projection Overstates 2013 Biennium General Fund $59,000

Dawson Community College has projected resident FTE enrollment for the 2013 biennium that may be optimistic, given historical enrollment trends at the college. The executive budget uses the college's enrollment projection in its funding formula calculations. This results in the funding formula estimating approximately $59,000 more general fund needed in the 2013 biennium than may be necessary. The legislature may wish to evaluate the enrollment projections put forth by the community college prior to setting the general fund appropriation and either reduce the enrollment projections or accept the enrollment projections as recommended in the executive budget.

The table shows the history of community college resident FTE enrollment since FY 2000. Dawson Community College is projecting resident FTE enrollments of 412 and 410 for FY 2012 and FY 2013, respectively. For the 11 years between FY 2000 and FY 2010, actual resident FTE enrollment has exceeded 400 students twice. Nine of the 11 years actual resident FTE enrollment was fewer than 400 students. At the November 2010 Board of Regents meeting, the Board received an enrollment report that indicated fall 2010 enrollment at Dawson Community College was on par with fall 2009 enrollment. If the general fund requirement was based upon FY 2010 actual resident FTE enrollment of 380 rather than the projected amounts, the general fund requirements would be reduced $58,961, or 1.1% in the 2013 biennium.

Community College Resident Enrollment History
FY 2000 Actual through FY 2013 Projected

FY	Dawson	Flathead	Miles	Total
2000	384	1,157	452	1,993
2001	363	1,144	494	2,001
2002	388	1,269	495	2,152
2003	363	1,380	455	2,198
2004	392	1,605	489	2,486
2005	442	1,407	513	2,362
2006	442	1,332	442	2,216
2007	353	1,223	442	2,018
2008	344	1,310	405	2,059
2009	382	1,516	398	2,296
2010	380	2,020	425	2,825
2011*	372	1,751	412	2,535
2012*	412	2,060	418	2,890
2013*	410	2,010	418	2,838

*FY 2011 funding formula, FY 2012 - 2013 projected by community college

If the legislature accepts the higher enrollment estimate and requires a reversion if the projected enrollment is not met and actual enrollment is less than the estimate, the community colleges will be required to revert state funds at the end of the 2013 biennium. The community college would not be able to spend the general fund, nor would the state have access to the general fund until it would revert at the end of the biennium. If the legislature reduces the enrollment estimate and actual enrollment is higher than the estimate, the community college would not get additional state funds, but could realize higher tuition revenues.

Options

- Reduce projected resident FTE enrollment at Dawson Community College to the FY 2010 actual resident FTE enrollment of 380, and reduce the general fund requirements $58,961 in the 2013 biennium
- Accept the executive budget as proposed

LFD ISSUE

Executive Budget Technical Error Overstates 2013 Biennium General Fund $9,253

The executive budget contains a technical error that overstates the 2013 general fund needed in the 2013 biennium by $9,253. The executive budget included $8,324 of one-time-only expenditures for common course numbering that should have been removed as this cost was funded from one-time-only funding. The impact of leaving the one-time expenditures in the expenditure base is that the fixed and variable cost calculations are overstated and, with projected enrollment growth for the 2013 biennium, the general fund requirements for the 2013 biennium are overstated $9,253.

Options

- Adjust the executive budget to correct the technical errors and increase the 2013 biennial general fund budget by $9,253
- Accept the executive budget as proposed

The Legislative Fiscal Division calculations for the community college funding formula and the difference from the executive budget are presented below:

Community College Assistance Program - LFD Calculation of General Fund Appropriation for the 2013 Biennium Using Statutory Funding Formula									
Comparison to the Executive Budget									
Includes a Fixed/Variable Cost Calculation at a 75/25 Ratio									
	Fiscal Year 2012				Fiscal Year 2013				Total Biennial Approp.
Budget Item Factors	Dawson	Flathead Valley	Miles	Total	Dawson	Flathead Valley	Miles	Total	
Projected Resident Student FTE	380	2,060	418	2,858	380	2,010	418	2,808	
Fixed Cost of Education	$2,790,046	$10,326,790	$3,795,997	$16,912,832	$2,790,046	$10,326,790	$3,795,997	$16,912,832	
Variable Cost of Education per FTE	$1,872	$1,872	$1,872	$1,872	$1,872	$1,872	$1,872	$1,872	
Total Cost of Education per Formula	$3,501,406	$14,183,110	$4,578,493	$22,263,009	$3,501,406	$14,089,510	$4,578,493	$22,169,409	
State % Share of Cost of Education	50.80%	50.80%	50.80%	50.80%	50.80%	50.80%	50.80%	50.80%	
Calculated State Share Amount	$1,778,714	$7,205,020	$2,325,874	$11,309,608	$1,778,714	$7,157,471	$2,325,874	$11,262,059	**$22,571,667**
Legislative Audit	19,668	23,202	18,446	61,316					
Banner Support Costs	35,000	0	35,000	70,000	35,000	0	35,000	70,000	
Carryforward GF Reductions	(12,298)	(37,347)	(16,164)	(65,809)	(12,298)	(37,347)	(16,164)	(65,809)	
Total General Fund Budget	$1,821,084	$7,190,875	$2,363,156	$11,375,115	$1,801,416	$7,120,124	$2,344,710	$11,266,250	**$22,641,365**
Executive Budget Proposal	$1,854,896	$7,191,921	$2,363,369	$11,410,186	$1,833,325	$7,121,145	$2,344,923	$11,299,393	**$22,709,579**
Difference	($33,812)	($1,046)	($213)	($35,071)	($31,909)	($1,021)	($213)	($33,143)	**($68,214)**

Enrollment Reversions

The 2001 Legislature passed HB 505, which provides for the calculation of reversions for funded resident enrollment growth in the Montana University System in those years when the legislature funds resident enrollment growth based upon resident enrollment projections and requires a reversion if resident enrollment projections are not met. The 2003 legislature passed HB 23 that added this provision for community colleges. Since the laws have been passed, every biennium that the legislature has used resident enrollment projections to fund resident enrollment growth it has required a reversion if resident enrollment projections are not met. This requirement is expressed in HB 2 language.

Section 17-7-142, MCA, allows the reversion to be based on the lower of the FTE resident enrollment projection and the actual FTE resident enrollment or the FTE resident enrollment projection and the prior three-year average FTE resident enrollment. HB 2 language further clarified that the enrollment reversion calculation is a biennial calculation. The reversion, if any, is made at the end of the biennium.

No reversion is anticipated for the 2011 biennium, as the actual community college enrollment has exceeded the FTE resident enrollment estimates used to establish the 2011 biennium appropriation. The community colleges do not receive additional state funds if actual FTE resident enrollment exceeds the estimates used to establish the appropriation. However, they do typically receive additional tuition revenue from the higher-than-anticipated FTE enrollments.

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following summarizes the plan submitted for this program.

- The agency's 5% reduction plan would reduce the community college general fund appropriation $426,104 each year
- The executive budget includes a general fund reduction of $65,809 each year, or 15.4% of the 5% reduction plan for this program as submitted by the agency
- The remaining $360,295 per year general fund reduction is not included in the executive budget
- If the legislature adopts the entire 5% reduction plan, the 2013 biennium executive budget would be reduced a further 3.2%
- A reduction of $360,295 per year would reduce the estimated general fund appropriation per resident student approximately $125 per year

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table
Community College Assistance

Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000 Total General Fund	$ 8,562,831	100.0%	$ 11,410,186	100.0%	$ 11,299,393	100.0%
01100 General Fund	8,562,831	100.0%	11,410,186	100.0%	11,299,393	100.0%
Grand Total	$ 8,562,831	100.0%	$ 11,410,186	100.0%	$ 11,299,393	100.0%

The Community College Assistance program is funded entirely with general fund.

The community colleges use the higher education fund structure to account for revenues and expenditures, the same fund structure used by the educational units and higher education agencies. The state appropriation for the community colleges is a separate line item and is not part of the lump sum appropriation to the Montana University System educational units.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category

	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	8,562,831	8,562,831	17,125,662	75.41%	8,562,831	8,562,831	17,125,662	75.41%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	90,565	29,249	119,814	0.53%	90,565	29,249	119,814	0.53%
New Proposals	2,756,790	2,707,313	5,464,103	24.06%	2,756,790	2,707,313	5,464,103	24.06%
Total Budget	**$11,410,186**	**$11,299,393**	**$22,709,579**		**$11,410,186**	**$11,299,393**	**$22,709,579**	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments

	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 402 - Community College Audit Costs (Bien-OTO)	0.00	61,316	0	0	61,316	0.00	0	0	0	0
DP 403 - Community College Banner Support	0.00	70,000	0	0	70,000	0.00	70,000	0	0	70,000
DP 404 - Remove Audit From Base	0.00	(40,751)	0	0	(40,751)	0.00	(40,751)	0	0	(40,751)
Total Other Present Law Adjustments	**0.00**	**$90,565**	**$0**	**$0**	**$90,565**	**0.00**	**$29,249**	**$0**	**$0**	**$29,249**
Grand Total All Present Law Adjustments	**0.00**	**$90,565**	**$0**	**$0**	**$90,565**	**0.00**	**$29,249**	**$0**	**$0**	**$29,249**

Program Personal Services Narrative

The agency did not provide a program level personal services narrative. Please refer to the agency narrative for a discussion of the Office of the Commissioner of Higher Education pay plan and personal services costs.

DP 402 - Community College Audit Costs (Bien-OTO) - This decision package requests the state funding percentage allocated to community college audit costs. Historically, the legislature has funded these costs at the same percentage share as the base budget for FY 2012 -50.8%. FY 2012 audit costs are split $19,668 to Dawson Community College, $23,202 to Flathead Community College, and $18,446 to Miles Community College.

DP 403 - Community College Banner Support - The executive budget recommends $35,000 per year for the 2013 biennium to Dawson Community College and $35,000 per year to Miles Community College in support of maintenance, implementation, and reporting of the Banner Management Information System.

DP 404 - Remove Audit From Base - This decision package is necessary to remove audit costs from the FY 12 and FY 13 adjusted base. The total State percentage for audit costs will be funded as OTO in DP 402.

New Proposals

The "New Proposals" table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals

	Fiscal 2012					Fiscal 2013				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 401 - Community College Assistance Base Budget Request 04	0.00	2,822,599	0	0	2,822,599	0.00	2,773,122	0	0	2,773,122
DP 55140 - Carry Forward FY 11 17-7-140 reductions 04	0.00	(65,809)	0	0	(65,809)	0.00	(65,809)	0	0	(65,809)
Total	**0.00**	**$2,756,790**	**$0**	**$0**	**$2,756,790**	**0.00**	**$2,707,313**	**$0**	**$0**	**$2,707,313**

DP 401 - Community College Assistance Base Budget Request - This proposal updates enrollment projections for the 2013 biennium. The state share of 50.8% of the cost of education for FY 2012 and FY 2013 is $3,925 and $3,980 respectively per resident student FTE.

LFD COMMENT

For a discussion of historical and projected enrollment, see the "Program Narrative" portion of this narrative.

LFD COMMENT

This decision package reinstates the $2.9 million of one-time-only funding contained in HB 645 approved by the 2009 Legislature.

DP 55140 - Carry Forward FY 11 17-7-140 reductions - This executive budget would increase the allocation of 17-7-140, MCA, reductions to the community colleges that were limited in FY 2010 due to the state fiscal stabilization fund maintenance of effort. The reduction totaling $65,809 each year of the 2013 biennium would be allocated as follows: $12,298 to Dawson Community College, $37,347 to Flathead Valley Community College, and $16,164 to Miles Community College.

LFD COMMENT

The proposed increase to the 2011 biennium reduction is the equivalent of $30 per student at Dawson, $39 at Miles, and $18 and Flathead.

For a discussion of the impact of the state fiscal stabilization fund on MUS funding, please refer to the Agency Discussion section of the agency overview.

Proprietary Rates

Proprietary Program Description

The Board of Regents, through the Office of the Commissioner of Higher Education (OCHE), provides faculty and staff with group benefits through the Montana University System (MUS) Group Insurance Program, which includes a flexible spending account option. The commissioner is authorized by Board of Regents' policy to administer the program as a self-insured, group insurance plan.

Program Narrative

The MUS Group Insurance Program serves approximately 6,900 active employees and 1,500 retirees. This service level is projected to continue for the 2013 biennium. All university system employees and eligible dependents are offered medical, dental, vision, and group life insurance, as well as long-term disability benefits and long-term care benefits. Retirees and their enrolled dependents are eligible to continue medical and pharmacy coverage on a self-pay basis.

2013 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Program Name
6008	MUS Group Insurance Program	51020	MUS Group Insurance
6010	CHE Wellness	51020	MUS Group Insurance

	Actual FY10	Budgeted FY11	Budgeted FY12	Budgeted FY13
Operating Revenues:				
Investment Earnings	122,469	125,000	1,400,000	1,500,000
Securities Lending Income	-			
Premiums	64,756,445	71,828,122	95,015,000	100,000,000
Other Operating Revenues	1,726,826	1,778,631	2,333,690	2,333,690
Total Operating Revenue	66,605,740	73,731,753	98,748,690	103,833,690
Operating Expenses:				
Personal Services	388,607	362,413	361,312	376,635
Other Operating Expenses	72,506,827	66,573,033	87,849,041	109,200,000
Total Operating Expenses	72,895,434	66,935,446	88,210,353	109,576,635
Operating Income (Loss)	**(6,289,694)**	**6,796,307**	**10,538,337**	**(5,742,945)**
Total Net Assets- July 1 - As Restated	29,130,961	22,841,267	29,637,574	40,175,911
Prior Period Adjustments			-	-
Cumulative effect of account change	-	-	-	-
Total Net Assets - July 1 - As Restated	29,130,961	22,841,267	29,637,574	40,175,911
Net Assets- June 30	**22,841,267**	**29,637,574**	**40,175,911**	**34,432,966**
60 days of expenses (Total Operating Expenses divided by 6)	12,149,239	11,155,908	14,701,726	18,262,773

Requested Rates for Internal Service Funds
Fee/Rate Information

HB 2 Language: Because certain employee benefit plans require a large number of individual premiums for a variety of benefit options, because the portion of these premiums paid by the state is statutorily established in 2-18-703, and because the employee-paid portion of these premiums must be adjusted from time to time to maintain employee group benefit plans on an actuarially sound basis, the legislature defines rates and fees for Montana university system employee benefit programs to mean the state contribution toward employee group benefits provided for in 2-18-703, and the employee contribution toward employee group benefits necessary to maintain the employee group benefit plans on anactuarially sound basis.

Proprietary Proposed Budget

The 2013 Biennium Report on Internal Service and Enterprise Funds for the MUS Group Insurance Program shows the financial information for the fund from FY 2010 through FY 2013. The report is provided as submitted by the executive but the LFD has edited and reconfigured the figure for clarity.

Overall in the 2013 biennium, revenue is projected to increase at a higher rate than expenses, thereby increasing the ending fund balance compared to the 2011 biennium.

Expenses

Expenditures include administration of the program (with a total of 4.65 FTE in FY 2010), wellness program expense, claims management, and insurance claims payments. The agency expects claims to total approximately $87.8 million in FY 2012 and $109.2 million in FY 2013, up from $72.5 million in FY 2010. The estimated total biennial increase in percentage terms is 41.7%. The primary cost driver impacting claims expense is medical and prescription costs. These costs are projected to increase 8% annually and 10% annually, respectively, through FY 2013 from the FY 2010 base budget year on the low end, and up to 11% and 13% annually, respectively, on the high end.

Revenue

Revenue in this program comes from

- Employer-paid contribution toward insurance premiums
- Employee-paid contribution toward insurance premiums
- Employee payments to flexible spending accounts
- Interest earnings on the program fund

Operating revenue is projected to increase 44% in the 2013 biennium, mostly driven by a projected 43% increase in premium revenue.

LFD COMMENT

The agency did not project at this time how much of the premium revenue increase would come from employer versus employee contributions. In FY 2011, the MUS contributes $733 per month towards group insurance premiums for each eligible employee. In the same time period, the average eligible employee pays $790 per month for group health insurance coverage for themselves and their dependents (medical and dental only, excludes premiums for other optional benefits).

Proprietary Present Law Adjustments

The executive budget recommends two present law adjustments that add budget authority for the program to pay increased costs in the group health insurance and the flexible spending account. A total of $51.2 million is added for the increased health insurance program costs and $13.5 million is added for administration of flexible spending accounts offered through the MUS group insurance program.

Proprietary Rates

The MUS Group Insurance Program is funded entirely with enterprise type proprietary funds. As such, the legislature does not appropriate funds or approve rates for the program. Instead, the legislature reviews the report for the enterprise fund and identifies any concerns with the financial position of the fund. The legislature has used the following language in lieu of specific rates:

"Because certain employee benefit plans require a large number of individual premiums for a variety of benefit options, the portion of these premiums paid by the state is statutorily established in 2-18-703, and the employee-paid portion of these premiums must be adjusted from time to time to maintain employee group benefit plans on an actuarially sound basis, the rates for the MUS Group Insurance Program mean the state contribution toward employee group benefits provided for in 2-18-703, and the employee contribution toward employee group benefits necessary to maintain the employee group benefit plans on an actuarially sound basis."

Rates are established and adjusted to maintain the MUS Group Insurance Program on an actuarially sound basis.

Program Budget Comparison

The following table summarizes the total executive budget for the program by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	19.95	19.95	19.95	19.95	19.95	19.95	0.00	0.00%
Personal Services	848,027	1,271,572	1,031,127	1,030,793	2,119,599	2,061,920	(57,679)	(2.72%)
Operating Expenses	669,261	1,401,956	773,372	773,786	2,071,217	1,547,158	(524,059)	(25.30%)
Local Assistance	0	0	0	0	0	0	0	n/a
Grants	1,059,267	5,470,185	2,654,267	1,959,267	6,529,452	4,613,534	(1,915,918)	(29.34%)
Transfers	1,400,000	900,000	2,300,000	2,300,000	2,300,000	4,600,000	2,300,000	100.00%
Total Costs	**$3,976,555**	**$9,043,713**	**$6,758,766**	**$6,063,846**	**$13,020,268**	**$12,822,612**	**($197,656)**	**(1.52%)**
General Fund	69,723	71,903	68,745	68,584	141,626	137,329	(4,297)	(3.03%)
State Special	0	0	0	0	0	0	0	n/a
Federal Special	3,906,832	8,971,810	6,690,021	5,995,262	12,878,642	12,685,283	(193,359)	(1.50%)
Total Funds	**$3,976,555**	**$9,043,713**	**$6,758,766**	**$6,063,846**	**$13,020,268**	**$12,822,612**	**($197,656)**	**(1.52%)**

Program Description

Educational Outreach and Diversity is primarily a federally funded program intended to decrease the dropout rate of low-income and at-risk students at the secondary school level, and to increase their enrollment in postsecondary education. The Educational Outreach and Diversity program has three components providing services to the target populations:

- Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP) is an early intervention and scholarship program that provides mentoring, counseling and outreach to build academic success that will lead to postsecondary education enrollment and achievement. The program provides these services to an entire cohort of students at participating schools starting in seventh grade, and the program services follow that cohort through high school completion.
- Montana Educational Talent Search (METS) creates a long-term academic contract with middle school students that subsequently provide academic support, skills building, and counseling to encourage the planning, preparation and pursuit of a postsecondary education.
- American Indian/Minority Achievement (AIMA) is responsible for American Indian and minority recruitment and retention in the university system, oversight for the campus diversity plans, and implementation of Indian Education for All programs in the university system. An overall objective of the program is to work with the campuses of the MUS in order to increase recruitment, enrollment, and graduation rates of American Indian and other minority students.

Program Highlights

Educational Outreach & Diversity Program
Major Budget Highlights

- General fund in this program supports the American Indian/Minority Achievement function and is about 1% of the program expenditures
- General fund reductions for the 5% base reduction plan for this program are absorbed by other agency programs
- Compared to the 2011 biennium, federal special revenue authority budgeted for the educational outreach function decreases 1.5%
- $3.0 million of authorized, but unexpended, federal GEAR-UP funds from prior years are included in FY 2011 in the budget comparison table, resulting in a higher budget in FY 2011 than either FY 2010 or either year of the 2013 biennium

Program Narrative

Goals and Objectives

2013 Biennium Goal

The Legislative Finance Committee recommends that goals and objectives for the Montana University System be reviewed and monitored at the agency level. Please refer to the agency narrative for a discussion of the identified significant goals for the 2013 biennium.

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following summarizes the plan submitted for this program. The executive includes the 5% general fund reduction for this program in DP 55400 in the Administration Program.

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table
Educational Outreach & Diversity

Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000 Total General Fund	$ 69,723	1.8%	$ 68,745	1.0%	$ 68,584	1.1%
01100 General Fund	69,723	1.8%	68,745	1.0%	68,584	1.1%
03000 Total Federal Special Funds	3,906,832	98.2%	6,690,021	99.0%	5,995,262	98.9%
03042 2Nd Gear Up Grant	3,134,249	78.8%	4,976,599	73.6%	4,281,090	70.6%
03411 Gear Up Trio Scholarship	137,128	3.4%	1,037,128	15.3%	1,037,128	17.1%
03665 Gsl Gear Up Match	71,757	1.8%	-	-	-	-
03806 Talent Search	563,698	14.2%	676,294	10.0%	677,044	11.2%
Grand Total	$ 3,976,555	100.0%	$ 6,758,766	100.0%	$ 6,063,846	100.0%

The American Indian/Minority Achievement program is funded 100% from state general fund and comprises about 1% of the program budget in the 2013 biennium. Federal funds provide the majority of the funding for this program. The GEAR-UP activities in this program are funded by a federal grant that requires a 50% non-federal fund match, which is provided through allowable in-kind services. Unexpended GEAR-UP federal grant funds of $3.0 million from prior years are carried forward into FY 2011 creating a higher FY 2011 appropriation in the budget comparison table. Carryover funds at a reduced level are also anticipated for FY 2012 and FY 2013 in the GEAR-UP program. The METS program is funded 100 percent from federal funds, with no match requirement.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category

	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	69,723	69,723	139,446	101.54%	3,976,555	3,976,555	7,953,110	62.02%
Statewide PL Adjustments	474	313	787	0.57%	180,676	180,291	360,967	2.82%
Other PL Adjustments	(1,452)	(1,452)	(2,904)	(2.11%)	2,601,535	1,907,000	4,508,535	35.16%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	**$68,745**	**$68,584**	**$137,329**		**$6,758,766**	**$6,063,846**	**$12,822,612**	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					226,064					225,718
Vacancy Savings					(42,964)					(42,952)
Inflation/Deflation					(1,896)					(1,856)
Fixed Costs					(528)					(619)
Total Statewide Present Law Adjustments		**$474**	**$0**	**$180,202**	**$180,676**		**$313**	**$0**	**$179,978**	**$180,291**
DP 600 - Rent Increase	0.00	0	0	7,987	7,987	0.00	0	0	8,452	8,452
DP 601 - GEAR UP- Federal Authority	0.00	0	0	2,595,000	2,595,000	0.00	0	0	1,900,000	1,900,000
DP 602 - Continuation of 2% Reduction - 2009 Session	0.00	(1,452)	0	0	(1,452)	0.00	(1,452)	0	0	(1,452)
Total Other Present Law Adjustments	**0.00**	**($1,452)**	**$0**	**$2,602,987**	**$2,601,535**	**0.00**	**($1,452)**	**$0**	**$1,908,452**	**$1,907,000**
Grand Total All Present Law Adjustments	**0.00**	**($978)**	**$0**	**$2,783,189**	**$2,782,211**	**0.00**	**($1,139)**	**$0**	**$2,088,430**	**$2,087,291**

Program Personal Services Narrative

The agency did not provide a program level personal services narrative. Please refer to the agency narrative for a discussion of the Office of the Commissioner of Higher Education pay plan and personal services costs.

DP 600 - Rent Increase - The executive budget includes an additional $16,439 in the 2013 biennium for increased building rent. This is funded entirely from federal funds.

LFD COMMENT

Total building rent for the agency is budgeted to increase $38,773 for the 2013 biennium compared to the FY 2010 base year expenditures. The Educational Outreach and Diversity Program is allocated $16,439, or 42% of the budgeted rent increase.

DP 601 - GEAR UP- Federal Authority - The executive budget includes additional federal authority to implement GEAR UP programs each year of the 2013 biennium. Federal special revenue authority is higher in FY 2012 due to grant carryover funds that must be expended in FY 2012.

DP 602 - Continuation of 2% Reduction - 2009 Session - The 2009 Legislature imposed a 2% across-the-board reduction of general fund but provided flexibility for affected agencies to allocate the reductions when developing operating plans for the 2011 biennium. The legislature directed in statute that agencies reduce their 2013 budget requests by the amount allocated to personal services in the 2011 biennium. This adjustment corresponds to the 2011 biennium portion of the 2% reduction allocated to personal services.

Proprietary Rates

Proprietary Program Description

The Montana Board of Regents created the Montana University System Self-Funded Workers' Compensation Program April 2003 as allowed by the Workers' Compensation Act in Title 39, Chapter 71 of the Montana Codes Annotated. This program, which became effective in July 2003, provides workers' compensation insurance coverage for all university system employees and employees of the Office of Commissioner of Higher Education. The MUS Self-Funded Workers' Compensation Insurance Committee, comprised of nine voting members, one from each of the eight participating campuses of the MUS and one from the Office of the Commissioner of Higher Education, is responsible for policy and management decisions of the program.

Program Narrative

Proprietary Proposed Budget

The 2013 Biennium Report on Internal Service and Enterprise Funds for the MUS Workers Compensation Program shows the financial information for the fund from FY 2010 through FY 2013. The report is provided as submitted by the executive but the LFD has edited and reconfigured the figure for clarity.

2013 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Program Name
6082	MUS Self-Funded Workers Comp	51020	MUS Self-Funded Workers Comp

	Actual FY10	Budgeted FY11	Budgeted FY12	Budgeted FY13
Operating Revenues:				
Investment Earnings	46,773	46,773	50,000	50,000
Premiums	4,979,335	4,979,335	4,979,335	4,979,335
Other Operating Revenues	29	-	-	-
Total Operating Revenue	5,026,137	5,026,108	5,029,335	5,029,335
Operating Expenses:				
Personal Services	83,699	82,089	81,225	81,019
Other Operating Expenses	3,812,332	3,684,494	3,811,321	3,811,323
Total Operating Expenses	3,896,031	3,766,583	3,892,546	3,892,342
Operating Income (Loss)	**1,130,106**	**1,259,525**	**1,136,789**	**1,136,993**
Total Net Assets- July 1 - As Restated	5,907,588	7,037,694	8,297,219	9,434,008
Prior Period Adjustments	-	-	-	-
Cumulative effect of account change	-	-	-	-
Total Net Assets - July 1 - As Restated	5,907,588	7,037,694	8,297,219	9,434,008
Net Assets- June 30	**7,037,694**	**8,297,219**	**9,434,008**	**10,571,001**
60 days of expenses (Total Operating Expenses divided by 6)	649,339	627,764	648,758	648,724

Requested Rates for Internal Service Funds
Fee/Rate Information

HB2 Language (proposed): The legislature defines rates for the Montana university system self funded workers compensation program to mean the amount necessary to maintain the plan on an actuarially sound basis.

The agency is projecting level revenue and expenses in the 2013 biennium. The program currently operates with revenues exceeding expenses by approximately $1.1 million each year. The fund balance in this program is projected to increase from $7.0 million in FY 2010 to $10.6 million in FY 2013.

Expenses

Expenditures include claims, reinsurance premiums, and administrative costs. The agency is projecting level expenditures through the 2013 biennium.

Revenue

Revenue in this program comes from employer-paid premiums and interest earnings on the program fund. The agency is projecting the wage base will be flat through the 2013 biennium, and that workers compensation rates will not increase through the 2013 biennium.

Proprietary Rates

The MUS Workers Compensation Program is funded entirely with enterprise type proprietary funds. As such, the legislature does not appropriate funds or approve rates for the program. Instead, the legislature reviews the report for the enterprise fund and identifies any concerns with the financial position of the fund.

Premium rates for the program are based upon commonly accepted actuarial principles developed by a qualified actuary and reviewed by the oversight committee. Two classifications are used to classify all MUS employees. The program does not currently use rate modifiers, rebates, or other premium adjustment methods. The oversight committee regularly evaluates surplus adequacy based on Montana Department of Labor (DOL) and industry benchmarks, market conditions, and other related factors. The Montana University System must re-apply to the Montana Department of Labor for self-funding authority on an annual basis. To maintain self-funding the program must achieve DOL Standards for a financially strong self-funding organization.

Program Budget Comparison

The following table summarizes the total executive budget for the program by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	5.00	5.00	5.00	5.00	5.00	5.00	0.00	0.00%
Personal Services	250,332	527,475	375,664	375,342	777,807	751,006	(26,801)	(3.45%)
Operating Expenses	142,726	134,264	307,724	261,046	276,990	568,770	291,780	105.34%
Grants	2,310,118	2,644,334	2,409,118	2,448,118	4,954,452	4,857,236	(97,216)	(1.96%)
Transfers	3,270,747	3,576,547	3,270,747	3,270,747	6,847,294	6,541,494	(305,800)	(4.47%)
Total Costs	**$5,973,923**	**$6,882,620**	**$6,363,253**	**$6,355,253**	**$12,856,543**	**$12,718,506**	**($138,037)**	**(1.07%)**
General Fund	90,063	90,066	90,067	90,067	180,129	180,134	5	0.00%
Federal Special	5,883,860	6,792,554	6,273,186	6,265,186	12,676,414	12,538,372	(138,042)	(1.09%)
Total Funds	**$5,973,923**	**$6,882,620**	**$6,363,253**	**$6,355,253**	**$12,856,543**	**$12,718,506**	**($138,037)**	**(1.07%)**

Program Description

The OCHE and the Office of Public Instruction coordinate the primarily federal efforts to support vocational education at the secondary and post-secondary levels.

Program Highlights

Workforce Development Program
Major Budget Highlights

- General fund provides the required state match for grant administration costs and remains level for the 2013 biennium
- The agency reallocated this program's 5% reduction target to other programs within the agency
- Compared to the 2011 biennium, federal special revenue authority used for career and technical education programs and services decreases 1.1%
- Federal spending authority totaling $503,700 in the 2013 biennium is included for a new, 4-year grant from the Carl D. Perkins program
- $0.50 million of authorized, but unexpended, federal Perkins funds from prior years are included in FY 2011 in the budget comparison table, resulting in a higher budget in FY 2011 than either FY 2010 or either year of the 2013 biennium

Program Narrative

Goals and Objectives

2013 Biennium Goal

The Legislative Finance Committee recommends that goals and objectives for the Montana University System be reviewed and monitored at the agency level. Please refer to the agency narrative for a discussion of the identified significant goals for the 2013 biennium.

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The agency included the general fund in this program in its calculation of its 5% reduction plan target, but reallocated the reduction to other programs within the agency.

LFD COMMENT

Any reduction to the amount of general fund expended in this program in FY 2010 may jeopardize the federal Carl Perkins grant as it includes maintenance of effort requirements. The general fund in this program funds the state match for administrative costs relating to post-secondary programs.

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table
Work Force Development Pgm

Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000 Total General Fund	$ 90,063	1.5%	$ 90,067	1.4%	$ 90,067	1.4%
01100 General Fund	90,063	1.5%	90,067	1.4%	90,067	1.4%
03000 Total Federal Special Funds	5,883,860	98.5%	6,273,186	98.6%	6,265,186	98.6%
03163 Perkins Rpos	-	-	255,950	4.0%	247,750	3.9%
03215 Carl Perkins Federal Funds	5,456,750	91.3%	5,590,126	87.9%	5,590,326	88.0%
03951 Tech Prep Grant	427,110	7.1%	427,110	6.7%	427,110	6.7%
Grand Total	$ 5,973,923	100.0%	$ 6,363,253	100.0%	$ 6,355,253	100.0%

The State of Montana receives an annual allocation of federal funds through the Carl D. Perkins Career and Technical Education Improvement Act of 2006 (Perkins). The Montana Board of Regents is designated by Montana statute (20-7-129, MCA) as the state entity responsible for administration or supervision of the programs required or allowed under the act. As the eligible agency, the Office of the Commissioner of Higher Education (OCHE) receives the entire grant allocation. OCHE then contracts with the Office of Public Instruction (OPI) for the administration and supervision of K-12 career and technical education programs, services, and activities allowed by the federal act.

The federal act requires at least 85% of the state allocation be earmarked for secondary and post-secondary grants, no more than 10% for state leadership activities as outlined in the federal legislation, and the greater of $250,000 or 5% for administration costs. Administrative costs must be matched dollar for dollar by non-federal sources.

The general fund requested in this program is the state match for the post-secondary administration costs. The state match for secondary administration is accounted for in the Office of Public Instruction.

Overall, approximately two-thirds of the grants and administration funds allowed in the act are distributed to OPI for secondary education programs and the remaining approximate one-third is used at the post-secondary level.

FY 2011 includes approximately $450,000 of carryover authority for Perkins grants from previous years, resulting in a higher FY 2011 appropriation amount in the program budget comparison table.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	90,063	90,063	180,126	100.00%	5,973,923	5,973,923	11,947,846	93.94%
Statewide PL Adjustments	4	4	8	0.00%	125,312	124,962	250,274	1.97%
Other PL Adjustments	0	0	0	0.00%	8,068	8,618	16,686	0.13%
New Proposals	0	0	0	0.00%	255,950	247,750	503,700	3.96%
Total Budget	**$90,067**	**$90,067**	**$180,134**		**$6,363,253**	**$6,355,253**	**$12,718,506**	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					140,984					140,65
Vacancy Savings					(15,652)					(15,64
Inflation/Deflation					(29)					(2
Fixed Costs					9					(2
Total Statewide Present Law Adjustments		**$4**	**$0**	**$125,308**	**$125,312**		**$4**	**$0**	**$124,958**	**$124,9**
DP 800 - Rent Increase	0.00	0	0	8,068	8,068	0.00	0	0	8,618	8,6
Total Other Present Law Adjustments	**0.00**	**$0**	**$0**	**$8,068**	**$8,068**	**0.00**	**$0**	**$0**	**$8,618**	**$8,6**
Grand Total All Present Law Adjustments	**0.00**	**$4**	**$0**	**$133,376**	**$133,380**	**0.00**	**$4**	**$0**	**$133,576**	**$133,5**

Program Personal Services Narrative

The agency did not provide a program level personal services narrative. Please refer to the agency narrative for a discussion of the Office of the Commissioner of Higher Education pay plan and personal services costs.

DP 800 - Rent Increase - The executive budget includes an additional $16,686 in the 2013 biennium for increased building rent. This is funded entirely from federal funds.

LFD COMMENT

Total building rent for the agency is budgeted to increase $38,773 for the 2013 biennium compared to the FY 2010 base year expenditures. The Workforce Development Program is allocated $16,686, or 43% of the budgeted rent increase.

New Proposals

The "New Proposals" table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals	Fiscal 2012					Fiscal 2013				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 801 - Paving the Way - New Federal Authority										
08	0.00	0	0	255,950	255,950	0.00	0	0	247,750	247,750
Total	**0.00**	**$0**	**$0**	**$255,950**	**$255,950**	**0.00**	**$0**	**$0**	**$247,750**	**$247,750**

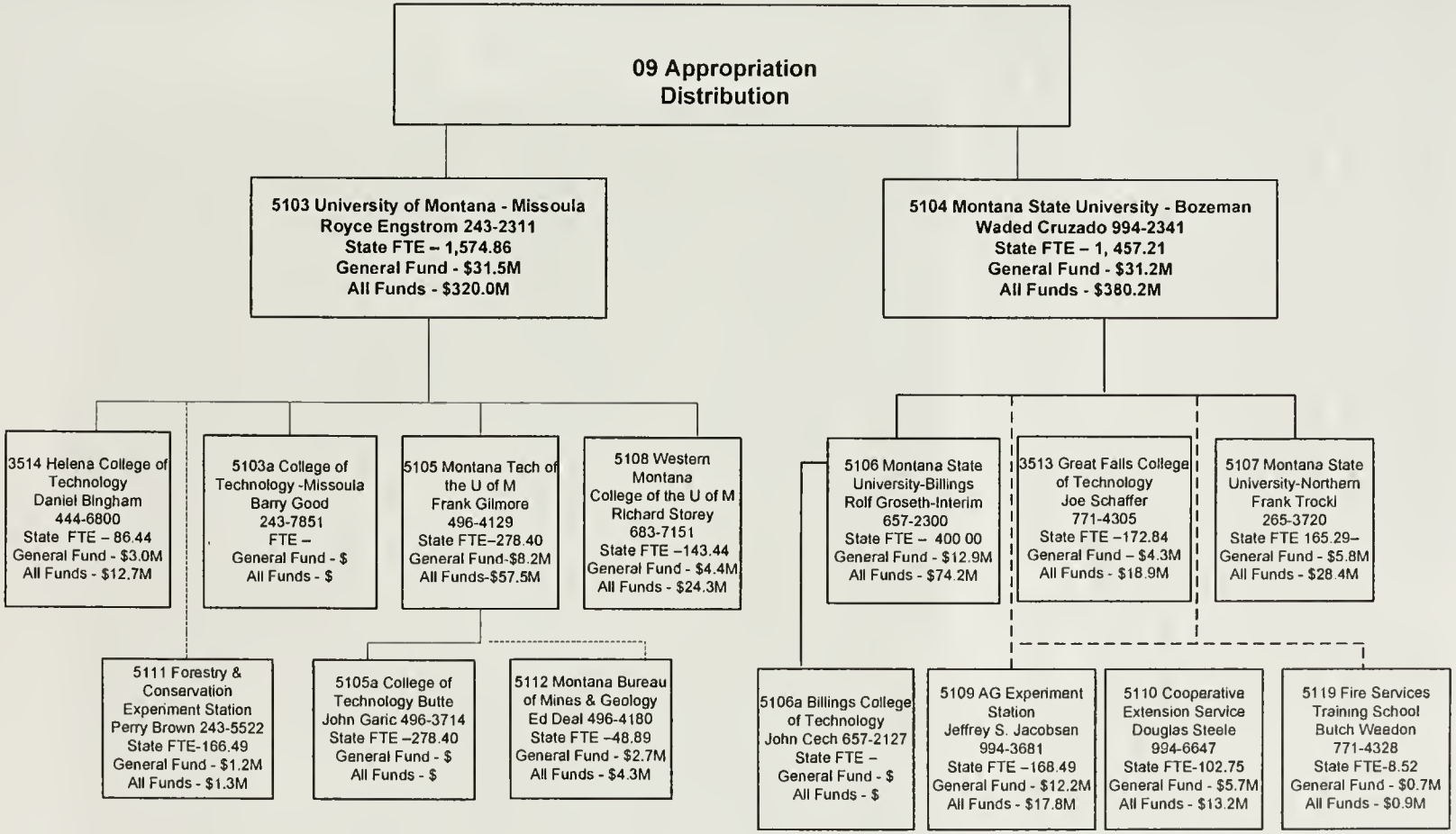
DP 801 - Paving the Way - New Federal Authority - This decision package includes $503,700 of federal special revenue authority in the 2013 biennium for a new federal grant under the Carl D. Perkins program that is intended to promote rigorous career and technical programs of study. The grant started October 1, 2010 and expires September 30, 2014. The grant does not require any cost sharing or matching; it is 100% federally funded.

Program Budget Comparison

The following table summarizes the total executive budget for the program by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
Personal Services	0	0	0	0	0	0	0	n/a
Transfers	174,252,684	171,428,524	186,224,092	189,777,945	345,681,208	376,002,037	30,320,829	8.77%
Total Costs	**$174,252,684**	**$171,428,524**	**$186,224,092**	**$189,777,945**	**$345,681,208**	**$376,002,037**	**$30,320,829**	**8.77%**
General Fund	123,863,811	124,722,453	166,498,968	168,605,311	248,586,264	335,104,279	86,518,015	34.80%
State Special	19,434,913	18,135,584	19,725,124	21,172,634	37,570,497	40,897,758	3,327,261	8.86%
Federal Special	30,953,960	28,570,487	0	0	59,524,447	0	(59,524,447)	(100.00%)
Other	0	0	0	0	0	0	0	n/a
Total Funds	**$174,252,684**	**$171,428,524**	**$186,224,092**	**$189,777,945**	**$345,681,208**	**$376,002,037**	**$30,320,829**	**8.77%**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.


09 Appropriation Distribution
5103 University of Montana - Missoula
Royce Engstrom 243-2311
State FTE – 1,574.86
General Fund - $31.5M
All Funds - $320.0M
5104 Montana State University - Bozeman
Waded Cruzado 994-2341
State FTE – 1, 457.21
General Fund - $31.2M
All Funds - $380.2M
3514 Helena College of Technology
Daniel Bingham
444-6800
State FTE – 86.44
General Fund - $3.0M
All Funds - $12.7M
5103a College of Technology -Missoula
Barry Good
243-7851
FTE –
General Fund - $
All Funds - $
5105 Montana Tech of the U of M
Frank Gilmore
496-4129
State FTE–278.40
General Fund-$8.2M
All Funds-$57.5M
5108 Western Montana College of the U of M
Richard Storey
683-7151
State FTE –143.44
General Fund - $4.4M
All Funds - $24.3M
5111 Forestry & Conservation Experiment Station
Perry Brown 243-5522
State FTE-166.49
General Fund - $1.2M
All Funds - $1.3M
5105a College of Technology Butte
John Garic 496-3714
State FTE –278.40
General Fund - $
All Funds - $
5112 Montana Bureau of Mines & Geology
Ed Deal 496-4180
State FTE –48.89
General Fund - $2.7M
All Funds - $4.3M
5106 Montana State University-Billings
Rolf Groseth-Interim
657-2300
State FTE – 400 00
General Fund - $12.9M
All Funds - $74.2M
3513 Great Falls College of Technology
Joe Schaffer
771-4305
State FTE –172.84
General Fund – $4.3M
All Funds - $18.9M
5107 Montana State University-Northern
Frank Trocki
265-3720
State FTE 165.29–
General Fund - $5.8M
All Funds - $28.4M
5106a Billings College of Technology
John Cech 657-2127
State FTE –
General Fund - $
All Funds - $
5109 AG Experiment Station
Jeffrey S. Jacobsen
994-3681
State FTE –168.49
General Fund - $12.2M
All Funds - $17.8M
5110 Cooperative Extension Service
Douglas Steele
994-6647
State FTE-102.75
General Fund - $5.7M
All Funds - $13.2M
5119 Fire Services Training School
Butch Weadon
771-4328
State FTE-8.52
General Fund - $0.7M
All Funds - $0.9M

Program Description

The Appropriation Distribution Program in the Office of the Commissioner of Higher Education (OCHE) is the conduit through which state funds flow to: 1) the university system units and colleges of technology and other campus related appropriations; and 2) the research/public service agencies.

The program budget is organized in this section in the order listed below. Present law and new proposal adjustments together with explanations will be included with the following subprograms:

- Educational Units (Montana State University campuses and University of Montana campuses)
- Agricultural Experiment Station (AES)
- Extension Service (ES)
- Forest and Conservation Experiment Station (FCES)
- Bureau of Mines and Geology (Bureau)
- Bureau of Mines Groundwater Investigation Program HB 52
- Fire Services Training School (FSTS)
- Motorcycle Safety

Program Highlights

Appropriation Distribution Program
Major Budget Highlights

- The executive budget proposes a biennial net 8.7% increase in state funds distributed to the MUS educational units and research/public service agencies
- Executive budget increases include
  - Higher state percent share than the 2009 Legislature
  - $13.46 million for ongoing New Proposals
- Executive budget decreases include
  - $4.4 million biennial reduction for 4% personal services reduction
  - $3.7 million biennial reduction for carryforward of 17-7-140
- The executive budget replaces $59.5 million of one-time federal State Fiscal Stabilization Funds from the 2009 American Recovery and Reinvestment Act with a like amount of general fund as provided in HB 645 and approved by the 2009 Legislature
- Interim Committee Recommendation
  - The Legislative Finance Committee recommends that the budget starting point be the adjusted base minus 5%

Legislative Action Issues

- HB 52 base program only partially funded
- The specific use of the proposed $12.66 million increase for the MUS is unknown. The legislature may wish to require further information on the proposed expenditures prior to taking executive action, follow-up reporting during the 2013 biennium, or both
- The natural resource operations account is over-allocated and may impact appropriations for the Bureau of Mines

Program Narrative

Higher Education Funding

One of the policy choices the Montana legislature makes during its biennial 90-day session is how much of the MUS budget request it will fund from state funds. Similar to other state agencies, in September 2010 the MUS education units and agencies submitted their 2013 biennium budget request for education and general operating costs funded from the current unrestricted fund (the university-equivalent of the state general fund). For the educational units, the education and general operating costs are funded with state funds (HB 2 and HB 13 appropriations) and student tuition. The legislature establishes the state appropriations during the legislative session. The Board of Regents establishes the final budget, including tuition rates, after the legislature adjourns. The Board of Regents is the sole authority in setting the tuition rates for the MUS. Tuition is not controlled or appropriated by the legislature. Tuition revenue fills the "gap" between the Board of Regent approved expenditure budget for educational units and the state funds appropriated by the legislature.

While the Montana Constitution grants governance authority to the Board of Regents, the power to appropriate state funds remains with the legislature. With this "power of the purse" comes the authority to attach policy decisions and accountability measures to the funding.

State funds are an important component of university funding because:

- State general fund support is the second largest source of current unrestricted revenue for the MUS, after tuition
- General fund appropriations in House Bill 2 provide the vehicle with which the legislature may have a public policy impact upon the MUS
- Montana Supreme Court decisions say that the Regents' power to govern must be harmonized with the legislature's power to appropriate, set public policy, and ensure accountability of state revenue and expenditures

The legislature considers many factors to develop the MUS appropriation including:

- Projected student enrollment
- Base year and actual expenditures and funding
- State funds available
- Legislative priorities
- Governor's recommendation
- Board of Regents' priorities
- Shared policy goals

Lump Sum Appropriation

Since the 1995 legislative session, the legislature has combined the appropriation for the six four-year campuses, five colleges of technology, and most of the Office of the Commissioner of Higher Education into a single, biennial lump-sum appropriation. Appropriations for the remaining units are contained in line items in the general appropriations act (HB 2).

State Share – A Legislative Policy Choice

Each legislative session, the legislature determines how much of the proposed MUS budget increase it will fund from state funds. Historically, the legislature has used one of two primary methods in any given legislative session, including:

- Resident Enrollment Based Methodology - Basing the state share on the ratio of resident + Western Undergraduate Exchange (WUE) students to total student enrollment. This methodology supports the policy that the state should fund cost increases at the proportion of resident and WUE students in order to minimize tuition increases for resident students. This is the methodology used by the 2007 Legislature when it approved the College Affordability Plan proposed by the Governor and agreed to by the Board of Regents. Tuition rates at all MUS campuses were capped for FY 2008 and FY 2009. Because resident and WUE students comprise a large proportion of total students, the state share using this methodology is about 84%.

- Revenue Based Methodology - Basing the state share on the ratio of state funds in the current unrestricted budget in the base year to total funds in the current unrestricted budget in the base year. This methodology supports the policy that the state should fund the portion of the budget it has control over, leaving the remainder for the Board of Regents to balance revenues and expenditures. This is the methodology that has been used most often for the last three decades. In FY 1988 the state percent share of the university educational units' budget was 74% while in FY 2010 the state percent share was 40.7%. This state share percentage decline over the years has been driven in part by MUS budget increases that have been approved by the Board of Regents subsequent to the legislative session that have exceeded the state funding increases provided by the legislature. This relationship of MUS budget increases exceeding the state funding increases has also contributed toward a 9.6% average annual tuition revenue increase between FY 1988 and FY 2010. [Note: Enrollment growth is another contributing factor for budget increases.] The need for budget increases exceeding the rate of increases in state funding is an issue the Board of Regents grapples with frequently as it debates the questions of educational quality, cost control, and student access.

Both of the methodologies have been adjusted as determined necessary by previous legislatures when state revenues decline unexpectedly. For example, in the 2009 session, a 2% across-the-board reduction was applied to the state funding that had been identified for the MUS agencies.

Proposed Executive Budget

The 2013 biennium proposed executive HB 2 budget would increase funding to the Montana University System educational units and research/public service agencies 8.8% from the 2011 biennium. The executive budget replaces most of the one-time-only funding that was appropriated to the educational units and research/public service agencies by the 2009 Legislature. The one-time-only appropriations for sawfly research at the Agricultural Experiment Station and local government centers in the Extension Service were not continued in the 2013 biennium proposed budget. The proposed pay plan would add an additional $7.1 million general fund to fund 85.8% of the projected pay plan cost.

If the one-time-only funding from the 2011 biennium is considered, the biennial budget increase is 2.2%. The figure below illustrates this comparison for the 2011 and 2013 biennia.

2013 Biennium Budget Increase With 2011 Biennium One-Time-Only Appropriations
Montana University System - Appropriation Distribution Program

Item	Base FY2010	Approp FY2011	Budget FY2012	Budget FY2013	Biennium Change	Biennium % Change
Base	$174,252,684	$171,428,524	$174,252,684	$174,252,684	$2,824,160	0.82%
OTO Appropriations	11,567,819	10,733,200	0	0	(22,301,019)	-100.00%
PL Adj	0	0	10,468,862	11,683,104	22,151,966	0
New Proposal	0	0	1,502,546	3,842,157	5,344,703	0
Total	$185,820,503	$182,161,724	$186,224,092	$189,777,945	$8,019,810	2.18%
General Fund	$128,017,844	$127,828,683	$166,498,968	$168,605,311	$79,257,752	30.98%
State Special	19,434,913	18,135,584	19,725,124	21,172,634	3,327,261	8.86%
Federal Special	38,367,746	36,197,457	0	0	(74,565,203)	-100.00%
Total	$185,820,503	$182,161,724	$186,224,092	$189,777,945	$8,019,810	2.18%

Note: General Fund and Federal Special funds in FY 2010 and FY 2011 include OTO appropriations authorized by the 2009 Legislature

FY 2010 Budget Base

The executive budget includes three base adjustments that are in addition to the typical base adjustment.

1. The executive replaced the federal State Fiscal Stabilization Funds (SFSF) from the American Recovery and Reinvestment Act (ARRA – the federal stimulus bill) with general fund as allowed in HB 645 passed by the 2009 Legislature. The 2009 Legislature used the SFSF funds to free up general fund that had been included in HB 2 for the MUS educational units. The freed up general fund was then reallocated to higher education and other non-education programs for the 2011 biennium as one-time-only appropriations.

2. The executive increased funding from the statewide six-mill levy $1.8 million in the 2013 biennium compared to the FY 2010 base six-mill funding. This adjustment offsets the amount of general fund that otherwise would be needed.
3. The executive included a portion of the general fund that was appropriated to the Montana Bureau of Mines for the groundwater investigation program established in HB 52 passed by the 2009 Legislature. See LFD Issue "HB 52 Base Funding" in the subprogram narrative. HB 52 appropriated $4.2 million general fund for the 2011 biennium; the executive budget includes $1.5 million general fund in the 2013 biennium.

Present Law Adjustments

In total, the executive proposes to fund $22.0 million in present law adjustments for the 2013 biennium for the education units and agencies. Present law increases account for 73% of the overall biennial budget increase proposed in the executive budget for the educational units and research/public service agencies.

The executive budget includes present law budget adjustments applied to other state agencies, including annualization of the 2011 biennium pay plan, inflation and fixed costs, and 4% vacancy savings applied to non-faculty positions. The executive budget also includes adjustments not routinely applied to other state agencies, including faculty termination costs, other operating cost inflationary increases, and zero-based personal services items such as overtime.

The executive budget does not propose a present law adjustment for enrollment growth. Although historically the executive and the legislature have used student enrollment projections to estimate present law budget adjustments, 2007 was the most recent year the legislature used enrollment to calculate funding for the MUS educational units in Montana. The figure below presents historical actual student FTE enrollment since FY 2000 and budgeted student FTE enrollment for the 2013 biennium for the MUS educational units. As the figure shows, FTE enrollment at the educational units has increased steadily since FY 2000, with enrollment increasing 8.1% between FY 2008 and FY 2010 and projected to increase 2.5% by FY 2013 compared to FY 2010.

Montana University System Student FTE Enrollment
Fiscal 2000 - Fiscal 2013

Fiscal Year	Resident Student FTE	Annual % Change	Non-Resident Student FTE	Total Student FTE	Resident as a % of Total
FY 00 Actual	24,605	0.7%	6,893	31,498	78.1%
FY 01 Actual	24,851	1.0%	6,715	31,566	78.7%
FY 02 Actual	25,566	2.9%	6,524	32,090	79.7%
FY 03 Actual	26,226	2.6%	6,447	32,673	80.3%
FY 04 Actual	26,828	2.3%	6,353	33,181	80.9%
FY 05 Actual	26,322	-1.9%	6,441	32,763	80.3%
FY 06 Actual	26,422	0.4%	6,667	33,089	79.9%
FY 07 Actual	26,263	-0.6%	6,910	33,173	79.2%
FY 08 Actual	26,279	0.1%	7,071	33,350	78.8%
FY 09 Actual	26,740	1.8%	7,180	33,920	78.8%
FY 10 Actual	28,398	6.2%	7,520	35,918	79.1%
FY 11 BOR Op Budget	28,526	0.5%	7,436	35,962	79.3%
FY 12 MUS Est.*	28,883	1.3%	7,658	36,541	79.0%
FY 13 MUS Est.*	29,102	0.8%	7,732	36,834	79.0%

* Data from the Office of the Commission of Higher Education (September 2010)

How the Executive Proposes to Fund the Present Law Expenditure Budget in the 2013 Biennium

The executive budget uses the resident enrollment based methodology to calculate the state share of present law budget increases. For the 2013 biennium, this ratio is approximately 84%. The executive budget therefore funds 84% of the present law budget increase with general fund. The remaining 16% of the present law budget increase would be funded from university funds, primarily tuition revenue. The tuition portion of the present law budget adjustment is not appropriated by the legislature and does not appear in HB 2.

Although the resident enrollment based methodology to calculate state percent share of present law budget increases has been used previously to negotiate tuition rates freezes, there is no agreement between the Board of Regents and the Governor to cap tuition rates in the 2013 biennium.

LFD COMMENT As previously noted in the program narrative, the legislature has historically used one of two methodologies to calculate the state share of the proposed budget increase for the Montana University System, and is using the resident enrollment based methodology for the 2013 biennium. The other methodology, basing the state share upon the percent of state funds to total current unrestricted funds in the FY 2010 base budget year, results in a ratio of 40.7%. Using this methodology, state funds for the present law adjustments in the executive budget would total $12.5 million, rather than the $22.0 million in the executive budget. The 2009 Legislature used the revenue based methodology for the 2011 biennium.

New Proposals

In total, the executive budget includes seven new proposals for the educational units and research/public service agencies for the 2013 biennium totaling a net $5.3 million funded from general fund. New proposals for the education units and agencies account for 18% of the overall biennial budget increase proposed in the executive budget for the educational units and research/public service agencies.

The executive budget adds $12.66 million general fund as a new proposal to increase funding for the Montana University System. The executive leaves the decision of how to spend the additional funds to the system presidents, subject to approval by the Board of Regents. See the LFD Issue "Accountability for Increased Funding" in the New Proposal section of this budget narrative.

The executive also recommends converting two one-time-only appropriations funded by the 2009 Legislature to ongoing appropriations in the 2013 biennium. The executive adds $800,000 general fund in the 2013 biennium for the Public Broadcasting System satellite up-linking and the MSU biodiesel research project ($400,000 each).

The executive budget also reduces funding in a series of new proposals that reduce personal services at the educational units and research/public service agencies by 4% and impose general fund reductions at higher-than-FY 2011 levels. See DPs 55140, 55141, 55401, and 55402 for specific reduction amounts. Total reductions are $4.1 million general fund each year, approximately 2.3% of the FY 2010 state funded expenditure base.

Goals and Objectives

2013 Biennium Goal

The Legislative Finance Committee recommends that goals and objectives for the Montana University System be reviewed and monitored at the agency level. Please refer to the agency narrative for a discussion of the identified significant goals for the 2013 biennium.

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following summarizes the plan submitted for this program.

- The 5% reduction target for this program, based upon FY 2010 actual base expenditures, totals $6.1 million annually
- The agency's 5% reduction plan includes a reduction of $5.8 million annually, and reallocates the difference to other programs within the agency
    - $4.4 million for the educational units
    - $1.4 million for the research/public service agencies
    - The agency indicates that reductions of this amount at the educational units would impact students by increasing student-faculty ratios, reducing course offerings, and reducing academic support and student services
- The executive budget reductions for 4% personal services and the carry forward of the FY 2011 17-7-140 reductions total $4.1 million annually, and comprises 69% of the 5% reduction plan for this program

- Adoption of the 5% reduction plan would reduce the proposed executive budget in this program by $1.8 million each year, or approximately 1% of the state funds included in the executive budget for the educational units and agencies

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table
Appropriation Distribution

Program Funding		Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000	Total General Fund	$ 123,863,811	71.1%	$ 166,498,968	89.4%	$ 168,605,312	88.8%
	01100 General Fund	123,863,811	71.1%	166,498,968	89.4%	168,605,312	88 8%
02000	Total State Special Funds	19,434,913	11 2%	19,725,124	10.6%	21,172,634	11 2%
	02289 Bureau Of Mines Groundwater	666,000	0.4%	666,000	0.4%	666,000	0.4%
	02443 University Millage	18,318,027	10.5%	18,508,238	9.9%	19,955,748	10.5%
	02576 Natural Resources Operations Ssr Fu	175,886	0.1%	175,886	0.1%	175,886	0.1%
	02944 Motorcycle Safety Training	275,000	0.2%	375,000	0.2%	375,000	0.2%
03000	Total Federal Special Funds	30,953,960	17.8%	-	-	-	-
	03488 Fed Stabilization Fund - Education	30,953,960	17.8%	-	-	-	-
Grand	Total	174,252,684	100.0%	$ 186,224,092	100.0%	$ 189,777,946	100.0%

While funding for this program is primarily general fund, state special revenue from the six-mill property tax levy funds he university educational units. Resource Indemnity Trust funds (RIT) and oil and gas and metal mines taxes support esearch programs at the Montana Bureau of Mines, and program fees and an allocation from drivers license fees support he motorcycle safety program at MSU-Northern in Havre.

The figure below illustrates the proposed executive budget for each component of the appropriation distribution program, including each campus of the university educational units and the research/public service agencies.

Appropriation Distribution Program -- 2013 Biennium Executive Budget Proposal

Subprogram	Base 2010	Approp 2011	PL 2012	NP 2012	Budget 2012	PL 2013	NP 2013	Budget 2013	2011 Biennium	2013 Biennium	Biennium Change	Biennium % Change
Ed Units	$150,608,446	$148,376,633	$9,709,168	$2,958,031	$163,275,645	$10,873,290	$5,297,915	$166,779,651	$298,985,079	$330,055,296	$31,070,217	10.39%
AES	12,242,313	12,298,341	412,940	(805,703)	11,849,550	459,958	(805,872)	11,896,399	24,540,654	23,745,949	($794,705)	-3.24%
ES	5,723,178	5,786,289	21,629	(389,784)	5,355,023	20,559	(389,853)	5,353,884	11,509,467	10,708,907	($800,560)	-6.96%
FCES	1,150,413	1,162,079	(66,736)	(73,168)	1,010,509	(65,392)	(73,177)	1,011,844	2,312,492	2,022,353	($290,139)	-12.55%
Bureau	2,753,552	2,783,833	249,220	(149,610)	2,853,162	250,105	(149,636)	2,854,021	5,537,385	5,707,183	$169,798	3.07%
Bureau HB52	758,259	0	0	0	758,259	0	0	758,259	758,259	1,516,518	$758,259	100.00%
FSTS	741,523	746,353	42,641	(37,220)	746,944	44,584	(37,220)	748,887	1,487,876	1,495,831	$7,955	0.53%
Motorcycle	275,000	275,000	100,000	0	375,000	100,000	0	375,000	550,000	750,000	$200,000	36.36%
Total Costs	$174,252,684	$171,428,528	$10,468,862	$1,502,546	$186,224,092	$11,683,104	$3,842,157	$189,777,945	$345,681,212	$376,002,037	$30,320,825	8.77%
Gen Fund	$123,863,811	$124,722,457	$41,132,611	$1,502,546	$166,498,968	$40,899,343	$3,842,157	$168,605,311	$248,586,268	$335,104,279	$86,518,011	34.80%
SSR	19,434,913	18,135,584	290,211	0	19,725,124	1,737,721	0	21,172,634	37,570,497	40,897,758	3,327,261	8.86%
Fed	30,953,960	28,570,487	(30,953,960)	0	0	(30,953,960)	0	0	59,524,447	0	(59,524,447)	-100.00%
Total Funds	$174,252,684	$171,428,528	$10,468,862	$1,502,546	$186,224,092	$11,683,104	$3,842,157	$189,777,945	$345,681,212	$376,002,037	$30,320,825	8.77%

Six-Mill Property Tax Levy

The statewide six-mill property tax levy that supports the Montana University System is authorized in 15-10-108, MCA. The tax levy is presented to voters statewide for approval every 10 years. The most recent statewide vote was in 2008.

The six-mill levy revenue is used to fund the education and general operating expenses of the educational units and is the second largest state funding source for the MUS after general fund. The executive budget increases funding from the six-mill levy from $35.3 million in the 2011 biennium to $38.5 million in the 2013 biennium, an 8.8% increase.

Natural Resource Operations State Special Revenue Account

The 2007 Legislature created the natural resource operations state special revenue account and allocated revenues from the Resource Indemnity Trust Fund, metal mines license tax proceeds, and oil and gas production taxes to the account. Appropriations were authorized by the 2009 Legislature from this account for the Department of Natural Resources and Conservation (DNRC), the Montana Bureau of Mines, the Department of Environmental Quality, and the Water Court in the Judicial Branch. The 2009 Legislature appropriated $175,866 per year of natural resource operations state special revenue for general program support for the Montana Bureau of Mines. A like amount each year is proposed in the 2013 biennium executive budget.

LFD ISSUE

Natural Resource Operations Account is Over Allocated in the Executive Budget

The executive budget proposes expenditures from the natural resource operations account that exceed the projected revenue available in this account by the end of the biennium. Refer to the LFD Issue in the Agency Summary section of the Department of Environmental Quality for a full discussion of the issue and options available to the legislature to address the issue.

The joint appropriation subcommittees on education and natural resources may wish to consult before making a final appropriation decision on this state special revenue account.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category

	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	123,863,811	123,863,811	247,727,622	73.93%	174,252,684	174,252,684	348,505,368	92.69%
Statewide PL Adjustments	30,763,749	29,316,239	60,079,988	17.93%	0	0	0	0.00%
Other PL Adjustments	10,368,862	11,583,104	21,951,966	6.55%	10,468,862	11,683,104	22,151,966	5.89%
New Proposals	1,502,546	3,842,157	5,344,703	1.59%	1,502,546	3,842,157	5,344,703	1.42%
Total Budget	**$166,498,968**	**$168,605,311**	**$335,104,279**		**$186,224,092**	**$189,777,945**	**$376,002,037**	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
					*					
DP 901 - Statewide Present Law Adjustments	0.00	(1,424,041)	0	0	(1,424,041)	0.00	(1,693,486)	0	0	(1,693,486
DP 902 - Library Inflation	0.00	455,708	0	0	455,708	0.00	937,130	0	0	937,13
DP 903 - Information Technology Increases	0.00	455,153	0	0	455,153	0.00	704,243	0	0	704,24
DP 904 - Admin Assessment	0.00	154,851	0	0	154,851	0.00	146,807	0	0	146,80
DP 905 - Utilities Inflation	0.00	1,791,066	0	0	1,791,066	0.00	1,944,759	0	0	1,944,75
DP 906 - New Space	0.00	477,832	0	0	477,832	0.00	529,622	0	0	529,62
DP 907 - Other Operating	0.00	329,798	0	0	329,798	0.00	896,335	0	0	896,33
DP 908 - Waivers	0.00	5,240,316	0	0	5,240,316	0.00	5,232,858	0	0	5,232,85
DP 909 - Faculty Termination Costs	0.00	1,394,026	0	0	1,394,026	0.00	1,394,026	0	0	1,394,02
DP 910 - Lease of Office Space	0.00	2,109	0	0	2,109	0.00	3,564	0	0	3,56
DP 911 - Agency O&M Reduction	0.00	(103,149)	0	0	(103,149)	0.00	(103,149)	0	0	(103,14
DP 912 - Accounting Adjustment IDC	0.00	28,511	0	0	28,511	0.00	28,511	0	0	28,51
DP 913 - Overtime/Comp/Communication Device Allowance	0.00	856,646	0	0	856,646	0.00	855,887	0	0	855,88
DP 914 - Agency Adjustments	0.00	710,036	0	0	710,036	0.00	705,997	0	0	705,99
DP 915 - Motorcycle Safety Program	0.00	0	100,000	0	100,000	0.00	0	100,000	0	100,00
Total Other Present Law Adjustments	**0.00**	**$10,368,862**	**$100,000**	**$0**	**$10,468,862**	**0.00**	**$11,583,104**	**$100,000**	**$0**	**$11,683,10**
Grand Total All Present Law Adjustments	**0.00**	**$41,132,611**	**$100,000**	**$0**	**$10,468,862***	**0.00**	**$40,899,343**	**$100,000**	**$0**	**$11,683,104**

* "Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

Program Personal Services Narrative

The agency did not provide a program level personal services narrative. Please refer to the agency narrative for a discussion of the Office of the Commissioner of Higher Education pay plan and personal services costs.

The following figure presents the present law adjustments as proposed in the executive budget, by decision package, by unit.

Figure 2

Present Law Adjustments - Educational Units and Research/Public Service Agencies
2013 Biennium Executive Budget Proposal

FY 2012	PL 0901	PL 902	PL 903	PL 904	PL 905	PL 906	PL 907	PL 908	PL 909	PL 910	PL 911	PL 912	PL 913	PL 914	PL 915	
Unit	SWPLA	Library Inflation	IT Increases	Admin Assessment	Utilities Inflation	New Space	Other Operating Inflation	Waivers	Faculty Termination	Lease of Office Space	Agency O&M Reduction	Accounting Adjustment	Overtime, Comp, Communication Device Allowance	Agency Adjustments	Motorcycle Safety	Total PL Adjs
MSU-Gt Falls	($116,828)	$940	$5,572	$0	$127,947	$0	$0	$33,124	$23,597	$0	$0	$5,711	$0	$0	$0	$80,063
UM-Helena	170,539	2,039	3,936	0	45,012	0	10,431	3,936	18,132	0	0	0	29,658	0	0	283,683
UM	(971,311)	228,255	90,729	0	510,648	0	138,563	2,926,889	346,936	0	0	0	687,010	0	0	3,957,719
MSU	(520,861)	207,643	235,663	0	454,496	255,101	70,981	1,968,908	342,151	0	0	0	0	0	0	3,014,082
Tech	384,430	2,391	43,416	0	173,546	0	26,957	73,305	32,985	0	0	0	0	0	0	737,030
MSU-Billings	(64,712)	6,785	33,449	0	278,858	0	65,315	160,591	178,830	0	0	0	78,679	0	0	737,795
MSU-Norther	413,810	4,323	31,160	0	51,294	0	17,551	42,191	104,187	0	0	22,800	42,492	0	0	729,808
UM Western	63,071	3,332	11,228	0	54,290	0	0	31,372	5,695	0	0	0	0	0	0	168,988
Subtotal Ed Units	($641,862)	$455,708	$455,153	$0	$1,696,091	$255,101	$329,798	$5,240,316	$1,052,513	$0	$0	$28,511	$837,839	$0	$0	$9,709,168
AES	($160,993)	$0	$0	$154,851	$90,034	$175,112	$0	$0	$147,869	$0	$0	$0	$6,067	$0	$0	$412,940
ES	(785,562)	0	0	0	4,941	47,619	0	0	144,871	0	(98,886)	0	12,740	695,906	0	21,629
FCES	(62,496)	0	0	0	0	0	0	0	23	0	0	0	0	0	0	(62,473)
Bureau	210,489	0	0	0	0	0	0	0	38,731	0	0	0	0	0	0	249,220
FSTS	16,383	0	0	0	0	0	0	0	10,019	2,109	(4,263)	0	0	14,130	0	38,378
Motorcycle Safety	0	0	0	0	0	0	0	0	0	0	0	0	0	0	100,000	100,000
Total FY 2012	($1,424,041)	$455,708	$455,153	$154,851	$1,791,066	$477,832	$329,798	$5,240,316	$1,394,026	$2,109	($103,149)	$28,511	$856,646	$710,036	$100,000	$10,468,862

FY 2013	PL 0901	PL 902	PL 903	PL 904	PL 905	PL 906	PL 907	PL 908	PL 909	PL 910	PL 911	PL 912	PL 913	PL 914	PL 915	
Unit	SWPLA	Library Inflation	IT Increases	Admin Assessment	Utilities Inflation	New Space	Other Operating Inflation	Waivers	Faculty Termination	Lease of Office Space	Agency O&M Reduction	Accounting Adjustment	Overtime, Comp, Communication Device Allowance	Agency Adjustments	Motorcycle Safety	Total PL Adjs
MSU-Gt Falls	($134,289)	$1,936	$11,701	$0	$130,144	$0	$0	$33,124	$23,597	$0	$0	$5,711	$0	$0	$0	$71,924
UM-Helena	166,316	4,201	4,251	0	37,858	0	10,536	4,133	18,132	0	0	0	29,658	0	0	275,085
UM	(1,105,385)	469,633	182,316	0	628,915	0	702,946	2,923,307	346,936	0	0	0	686,170	0	0	4,834,838
MSU	(535,460)	426,609	354,648	0	487,345	265,306	71,500	1,963,686	342,151	0	0	0	0	0	0	3,375,785
Tech	393,146	4,992	47,519	0	154,649	0	27,591	74,288	32,985	0	0	0	0	0	0	735,170
MSU-Billings	(126,570)	13,990	36,833	0	289,367	0	66,036	160,757	178,830	0	0	0	78,760	0	0	698,003
MSU-Norther	364,093	8,905	49,779	0	53,837	0	17,726	42,191	104,187	0	0	22,800	42,492	0	0	706,010
UM Western	52,975	6,864	17,196	0	62,373	0	0	31,372	5,695	0	0	0	0	0	0	176,475
Subtotal Ed Units	($925,174)	$937,130	$704,243	$0	$1,844,488	$265,306	$896,335	$5,232,858	$1,052,513	$0	$0	$28,511	$837,080	$0	$0	$10,873,290
AES	($150,627)	$0	$0	$146,807	$95,050	$214,792	$0	$0	$147,869	$0	$0	$0	$6,067	$0	$0	$459,958
ES	(784,778)	0	0	0	5,221	49,524	0	0	144,871	0	(98,886)	0	12,740	691,867	0	20,559
FCES	(61,152)	0	0	0	0	0	0	0	23	0	0	0	0	0	0	(61,129)
Bureau	211,374	0	0	0	0	0	0	0	38,731	0	0	0	0	0	0	250,105
FSTS	16,871	0	0	0	0	0	0	0	10,019	3,564	(4,263)	0	0	14,130	0	40,321
Motorcycle Safety	0	0	0	0	0	0	0	0	0	0	0	0	0	0	100,000	100,000
Total FY 2013	($1,693,486)	$937,130	$704,243	$146,807	$1,944,759	$529,622	$896,335	$5,232,858	$1,394,026	$3,564	($103,149)	$28,511	$855,887	$705,997	$100,000	$11,683,104

LFD COMMENT

Present law adjustments for the MUS educational units and agencies are for statewide present law adjustments and other requested adjustments. As noted earlier, the legislature funds a portion of the university budget request. This portion, or state percent share, has varied. The 2013 biennium executive budget funds most of the present law adjustments it has included in its budget recommendation at the ratio of projected resident and WUE students to total students, approximately 84%. The dollar amounts included in the tables in the Budget Analysis are the state share only (unless otherwise noted).

Several present law adjustments proposed in the 2013 biennium executive budget are adjustments for personal services expenditures that were incurred in the FY 2010 base year, but were automatically zeroed out when the statewide present law adjustment was calculated by MBARS (the budget development system) during the budget development process.

When MBARS calculates personal services costs, it calculates the full salary and benefits of each position at its current salary and adjusts for any pay plan change for the current biennium. This is the "snapshot calculation". Vacancy savings is also applied in the statewide present law adjustment calculations.

Costs that an agency may incur in the base year, such as overtime, are removed from the base and are not included in the projected budget calculations. Several present law requests proposed in the executive budget are requests to reinstate personal services expenditures that were removed during the budget development process. The list below includes the types of expenditures that are being requested for reinstatement in the 2013 biennium and the decision package number containing the requested adjustment. Refer to the decision package for more information on each adjustment:

- Faculty Termination (DP 909)
- Overtime, Additional Compensation, Communication Device Allowance (DP 913)
- Faculty/Staff, Dependent, and Graduate Teaching Assistant/Research Fee Waivers (DP 908)
- Higher Ed Recharges (DP 904, DP 914, DP 901)
- Special Benefits Costs for Extension Service (DP 914)

DP 901 - Statewide Present Law Adjustments - This decision package includes $3,155,541 in FY 2012 and $2,876,820 in FY 2013 for statewide present law adjustments calculated from the personal services snapshot, vacancy savings, and fixed cost adjustments as is applied to all state agencies. These cost increases are offset $4,579,582 in FY 2012 and $4,570,307 in FY 2013 for expenditures that have been removed from MBARS (the budget development system) or have been reclassified for system consistency. See the figure on the previous page for the adjustment by unit.

LFD COMMENT

The figure below presents the statewide present law adjustments by campus, by year, and includes the additional adjustments included in the 2013 biennium executive budget.

Montana University System Statewide Present Law Adjustments
2013 Biennium Executive Budget Proposal

FY 2012	MSU GF	UM Helena	UM Missoula	MSU Bozeman	UM MT Tech	MSU Billings	MSU Northern	UM Western	AES	ES	FCES	Bureau	FSTS	System Total
Personal Services	$5,201	$255,250	$704,426	$4,879,425	$732,263	$1,125,523	$622,628	$183,099	$267,621	($596,964)	($24,621)	$317,088	$9,502	$8,480,441
Vacancy Savings	(139,767)	(89,755)	(1,490,474)	(1,302,301)	(222,405)	(434,040)	(171,480)	(153,004)	(416,974)	(184,885)	(39,689)	(107,117)	0	(4,751,890)
Inflation/Deflation	42,020	30,624	298,873	244,530	(2,995)	150,396	55,880	46,576	16,958	254	0	0	1,143	884,260
Vacancy Savings	(24,281)	(25,580)	(484,137)	(542,383)	(122,433)	(127,142)	(93,218)	(13,599)	(28,598)	(3,968)	1,814	518	5,738	(1,457,270)
Subtotal	($116,828)	$170,539	($971,311)	$3,279,272	$384,430	$714,737	$413,810	$63,071	($160,993)	($785,562)	($62,496)	$210,489	$16,383	$3,155,541
Additional Adjustments	-	-	-	(3,800,133)	-	(779,449)	-	-	-	-	-	-	-	(4,579,582)
Grand Total DP 901	($116,828)	$170,539	($971,311)	($520,861)	$384,430	($64,712)	$413,810	$63,071	($160,993)	($785,562)	($62,496)	$210,489	$16,383	($1,424,041)

FY 2013	MSU GF	UM Helena	UM Missoula	MSU Bozeman	UM MT Tech	MSU Billings	MSU Northern	UM Western	AES	ES	FCES	Bureau	FSTS	System Total
Personal Services	11,434	256,982	$707,318	$4,929,873	$753,534	$1,145,563	$630,837	$188,279	$276,889	($593,815)	($24,049)	$317,938	$8,385	$8,609,169
Vacancy Savings	(139,830)	(89,733)	(1,487,333)	(1,299,869)	(225,451)	(434,714)	(171,633)	(153,045)	(417,348)	(185,004)	(39,708)	(107,150)	0	(4,750,818)
Inflation/Deflation	14,117	21,882	114,813	129,356	(21,266)	54,913	(8,027)	28,822	12,408	(2,484)	0	0	946	345,481
Vacancy Savings	(20,010)	(22,816)	(440,183)	(504,767)	(113,671)	(112,079)	(87,084)	(11,080)	(22,576)	(3,476)	2,605	586	7,540	(1,327,012)
Subtotal	(134,289)	166,316	($1,105,385)	$3,254,593	$393,146	$653,684	$364,093	$52,975	($150,627)	($784,778)	($61,152)	$211,374	$16,871	$2,876,820
Additional Adjustments	-	-	-	(3,790,052)	-	(780,254)	-	-	-	-	-	-	-	(4,570,306)
Grand Total DP 901	(134,289)	166,316	($1,105,385)	($535,459)	$393,146	($126,570)	$364,093	$52,975	($150,627)	($784,778)	($61,152)	$211,374	$16,871	($1,693,486)

DP 902 - Library Inflation - The executive budget proposes to add $1.4 million in the 2013 biennium for library inflation. The executive budget adds 6% inflation to base expenditures in FY 2010. See Figure 2 for the adjustment by unit.

LFD COMMENT

The executive budget calculates the library inflation adjustment as a 6% increase from FY 2010 to FY 2012, plus an additional 6% increase from FY 2012 to FY 2013. No inflation between FY 2010 and FY 2011 is included in the adjustment. If 6% inflation was applied to each year from the FY 2010 base expenditures, it would add $1.0 million to the cost of this decision package.

DP 903 - Information Technology Increases - This proposal increases funding $455,153 in FY 2012 and $704,243 in FY 2013 for information technology (IT) costs including contractual software licenses and maintenance agreements, hardware maintenance agreements, and internet service costs. See Figure 2 for the adjustment by unit.

DP 904 - Admin Assessment - This request restores administrative assessments reclassified for financial statement purposes in the amount of $154,851 in FY 2012 and $146,807 in FY 2013. See Figure 2 for the adjustment by unit.

LFD COMMENT

The adjustment in this decision package is for the Agricultural Experiment Station for projected administrative assessment costs to be paid to Montana State University in the 2013 biennium.

DP 905 - Utilities Inflation - The executive budget funds the state share of the MUS request for projected cost increases in utilities of $1,791,066 in FY 2012 and $1,944,759 in FY 2013 for the educational units and the public service and research agencies. See Figure 2 for the adjustment by unit.

LFD COMMENT

The executive budget includes deflationary adjustments for natural gas in DP 901, Statewide Present Law Adjustments, and inflationary and other adjustments for all utilities in this decision package. The executive budget includes inflationary increases that exceed increases allowed for other state agencies. Overall, between DP 901 and this decision package, the executive provides a 2.0% increase for utilities in FY 2012 from the FY 2010 base costs, and a 4.1% increase in FY 2013 from the FY 2010 base costs.

DP 906 - New Space - The budget includes $477,832 in FY 2012 and $529,622 in FY 2013 for operations and maintenance for space previously authorized but not included in the base budget for the Montana University System. Space authorized includes Animal Bioscience Facility, Northern Agricultural Research Center, and Eastern Agricultural Research Center. See Figure 2 for the adjustment by unit.

DP 907 - Other Operating - The administration recommends a $329,798 increase in funding for FY 2012 and $896,335 increase for FY 2013 for other operating costs for items that exceed the normal cost of inflation including repair and maintenance, off campus rent, and gasoline expenses. See Figure 2 for the adjustment by unit.

LFD COMMENT

The executive proposes this adjustment for a general 1% inflation adjustment on all expenditures not otherwise adjusted for inflation at some campuses and inflation for selected expenditures noted in the decision package description for other campuses. Other state agencies are not provided a general inflationary adjustment.

DP 908 - Waivers - This decision package increases funding for mandatory fee waivers and restores faculty staff, dependent, graduate and TA/RA waivers of $10,473,174 for the 2013 biennium.

LFD COMMENT

The Board of Regents determines which fee waivers are mandatory, discretionary, or an employee benefit by policy and by collective bargaining agreement. Fee waivers appear as expenditures in the financial records because they are foregone revenue.

The proposed adjustment in the 2013 biennium executive budget includes $2.3 million for faculty, staff, and dependent fee waivers and $7.8 million for graduate teaching/research assistant fee waivers. These fee waiver expenditures are classified as personal services in the base budget year and are automatically eliminated in the statewide present law adjustment calculation, and therefore are requested for reinstatement each biennium.

This proposed adjustment also includes $0.3 million for projected increased utilization of BOR mandatory fee waivers driven by increased enrollment projections and the anticipated increase in the number of qualifying students.

Montana University System - DP 908 Fee Waivers

	Dependent Fee Waivers		Mandatory Fee Waivers		Total Fee Waivers	
Unit	FY 12 Budget	FY 13 Budget	FY 12 Budget	FY 13 Budget	FY 12 Budget	FY 13 Budget
MSU GF	$26,649	$26,649	$6,475	$6,475	$33,124	$33,124
UM Helena	984	984	2,952	3,149	3,936	4,133
UM Missoula	2,804,339	2,800,907	122,550	122,400	2,926,889	2,923,307
MSU Bozeman	1,968,908	1,963,686	0	0	1,968,908	1,963,686
UM Tech	52,559	53,264	20,746	21,024	73,305	74,288
MSU Billings	160,591	160,757	0	0	160,591	160,757
MSU Northern	42,191	42,191	0	0	42,191	42,191
UM Western	29,481	29,481	1,891	1,891	31,372	31,372
Total	$5,085,703	$5,077,918	$154,613	$154,938	$5,240,316	$5,232,857

Dependent fee waivers include $2.3 million for fac/staff/dependents and $7.8 million for Graduate TA/RA fee waivers

The system wide FY 2011 budget for fee waivers funded from state funds and tuition totals $30.9 million.

DP 909 - Faculty Termination Costs - This proposal funds MUS agency and unit faculty termination costs at the state percentage of base level expenditures of $1,394,026 per year for the 2013 biennium.

LFD COMMENT

Faculty termination costs were expended in the budget base year but were removed in the statewide present law adjustment calculations because they are zero-based expenditures. The figure below shows how much was expended in the base year by unit and the state percent share percentage and amount proposed in the executive budget.

LFD COMMENT CONT.

Termination costs include payment of accrued annual and sick leave as provided in (Sections 2-18-617 and 2-18-618, MCA) and employer retirement contributions for certain faculty belonging to the Teachers Retirement System.

Montana University System Present Law Adjustment
Faculty Termination Costs
FY 2010 Base Budget and 2013 Biennium Proposed in Executive Budget

Unit/Agency	FY 2010 Base Expenditure	FY 2012 State % Share	FY 2013 State % Share	FY 2012 Executive Budget	FY 2013 Executive Budget
MSU-Gt Falls	$48,102	49.1%	49.1%	$23,597	$23,597
UM-Helena	32,511	55.8%	55.8%	18,132	18,132
UM	1,014,232	34.2%	34.2%	346,936	346,936
MSU	1,000,385	34.2%	34.2%	342,151	342,151
Tech	75,174	43.9%	43.9%	32,985	32,985
MSU-Billings	364,025	49.1%	49.1%	178,830	178,830
MSU-Norther	164,537	63.3%	63.3%	104,187	104,187
UM Western	10,517	54.1%	54.1%	5,695	5,695
AES	176,695	83.7%	83.7%	147,869	147,869
ES	210,798	68.7%	68.7%	144,871	144,871
FCES	24	94.3%	94.3%	23	23
Bureau	38,997	99.3%	99.3%	38,731	38,731
FSTS	10,022	100.0%	100.0%	10,019	10,019
TOTAL	$3,146,019			$1,394,026	$1,394,026

Includes sick leave, vacation,compensatory time, employer contribution TRS Option 1

DP 910 - Lease of Office Space - The executive budget includes $5,673 for the 2013 biennium to fund the increase in lease costs for the Fire Services Training School.

DP 911 - Agency O&M Reduction - This request adjusts the overhead operations allocation to estimated amounts for the 2013 biennium, reducing funding $103,149 each year of the 2013 biennium. This adjustment impacts the Extension Service and the Fire Services Training School. See Figure 2 for the adjustment by unit.

DP 912 - Accounting Adjustment IDC - This request reinstates indirect cost expenditures that are eliminated for financial statement purposes and need to be budgeted $28,511 each year of the 2013 biennium. This adjustment impacts MSU-Great Falls and MSU-Northern. See Figure 2 for the adjustment by unit.

DP 913 - Overtime/Comp/Communication Device Allowance - This request funds overtime costs; additional faculty, administrative, and classified staff compensation for temporary, additional duties; and communication device allowance expenditures that are not captured by the budget development system (MBARS) in the amount of $856,646 in FY 2011 and $855,887 in FY 2013.

LFD COMMENT

Overtime, additional compensation, and communication device allowance costs were expended in the budget base year but were removed in the statewide present law adjustment calculations because they are zero-based expenditures. This decision package includes approximately $173,000 annually for overtime, $622,000 annually for additional compensation, and $62,000 annually for communication device allowance. This adjustment impacts UM-Helena, UM-Missoula, MSU-Billings, MSU-Northern, the Agricultural Experiment Station, and the Extension Service. See Figure 2 for the adjustment by unit.

P 914 - Agency Adjustments - This request reinstates medical benefits for the extension agents that are removed in IBARS and reclassifies personal service expenditures within Extension Service and Fire Services Training School. See igure 2 for the adjustment by unit.

P 915 - Motorcycle Safety Program - This request increases state special revenue funding $100,000 each year of the 013 biennium for the Montana Motorcycle Safety Training Program.

ew Proposals

he "New Proposals" table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion f each new proposal are included in the individual program narratives.

ew Proposals	Fiscal 2012						Fiscal 2013				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
P 916 - PBS Satellite Up-Linking Fund										
09	0.00	200,000	0	0	200,000	0.00	200,000	0	0	200,000
P 917 - Restore MSU Biodiesel Research										
09	0.00	200,000	0	0	200,000	0.00	200,000	0	0	200,000
P 918 - University System Funding										
09	0.00	5,160,000	0	0	5,160,000	0.00	7,500,000	0	0	7,500,000
P 55140 - Carry Forward FY 2011 17-7-140 reductions Ed Units										
09	0.00	(749,642)	0	0	(749,642)	0.00	(749,642)	0	0	(749,642)
P 55141 - Carry Forward FY 2011 17-7-140 reductions Agencies										
09	0.00	(1,095,262)	0	0	(1,095,262)	0.00	(1,095,262)	0	0	(1,095,262)
P 55401 - 4% Personal Services reduction-Educational Units										
09	0.00	(1,852,327)	0	0	(1,852,327)	0.00	(1,852,443)	0	0	(1,852,443)
P 55402 - 4% Personal Services reduction-Agencies										
09	0.00	(360,223)	0	0	(360,223)	0.00	(360,496)	0	0	(360,496)
Total	**0.00**	**$1,502,546**	**$0**	**$0**	**$1,502,546**	**0.00**	**$3,842,157**	**$0**	**$0**	**$3,842,157**

P 916 - PBS Satellite Up-Linking Fund - The executive budget restores funding to Montana PBS $400,000 for the 013 biennium for the ongoing delivery of the Montana PBS signal to cable head-ends and Montana PBS transmitter and anslator installations.

LFD COMMENT

The 2009 Legislature funded the PBS satellite up-linking with a one-time-only $400,000 general fund appropriation. The executive budget proposes that the $400,000 appropriation become part of the budget base for the Montana University System.

P 917 - Restore MSU Biodiesel Research - The executive budget restores $200,000 general fund per year to the lontana State University Biodiesel Research, which was funded with one-time-only funding in the 2011 biennium.

LFD COMMENT

The 2009 Legislature funded the MSU Biodiesel Research with a one-time-only $400,000 general fund appropriation. The executive budget proposes that the $400,000 appropriation become part of the budget base for the Montana University System.

P 918 - University System Funding - This decision package proposes $2,580,000 in FY 2012 and $3,750,000 in FY 013 for each of the University of Montana and Montana State University systems and affiliated agencies ($12,660,000 tal) in order to enhance student access and success, promote economic development, and more readily respond to orkforce development needs by the system presidents subject to approval by the Board of Regents.

LFD ISSUE

Accountability for Increased Funding

The executive budget recommends a $12.66 million budget increase for the Montana University System wit general guidelines on how the funds could be spent. The executive recommends that the system president develop a plan for spending the proposed $12.66 million general fund over the 2013 biennium and obtain Board o Regent approval for the spending plan. As this new proposal is the single most costly initiative in its proposed budge for the Montana University System, the legislature may wish to insert some accountability in the process, either b requiring a preliminary plan before taking action on the new proposal, requiring a report to the interim Legislativ Finance Committee by October 2011 on the plan approved by the Board of Regents, or both.

Typically the legislature is informed of how funds, particularly new funds, will be spent prior to the legislature takin action on the budget. Requiring more specific information from the MUS on how the new proposal funds would be use would give the legislature more information upon which to base its funding decision. While the executive recommend the funds be used for the general areas mentioned in the decision package description, under the executive budge proposal, the actual use of the funds would not be known until a plan is presented to the Board of Regents followin legislative approval of the new proposal.

Options

- Request a preliminary spending plan from the MUS before taking executive action
- Require a report to the Legislative Finance Committee by October 2011 containing the plan that has bee presented to and approved by the Board of Regents
- Both 1 and 2
- Take legislative action on the new proposal without further requirements from the agency

DP 55140 - Carry Forward FY 2011 17-7-140 reductions Ed Units - This decision package increases the allocation of 17 7-140, MCA, reductions to the educational units that were limited in FY 2010 due to the State Fiscal Stabilization Fun maintenance of effort. A total of $749,642 is allocated each year of the biennium to the educational units.

LFD COMMENT

When the Governor implemented 17-7-140 general fund reductions in the 2011 biennium, th educational units were reduced at a disproportionately smaller amount than they otherwise would hav been because the MUS had to ensure that it met the federal requirements contained in the 200 American Recovery and Reinvestment Act (the federal stimulus bill) to maintain fiscal effort in F 2010 and FY 2011. This decision package removes an additional $749,643 per year from the educational units in th 2013 biennium.

DP 55141 - Carry Forward FY 2011 17-7-140 reductions Agencies - This decision package carries forward $1,095,26 of 17-7-140, MCA, reductions made for the agencies in FY 2011. Agency reductions carry forward as follows each yea of the 2013 biennium: Agricultural Experiment Station $615,086, Extension Service $288,363, Bureau of Mines an Geology $96,664, Forest and Conservation Experiment Station $57,929 and Fire Service Training School $37,220.

DP 55401 - 4% Personal Services reduction-Educational Units - The Governor has included a 4% reduction in gener fund personal services budgets as a part of his budget recommendations. This decision package reduces the education units by $1,852,327 in FY 2012 and $1,852,443 in FY 2013 to implement the budget reduction. The reduction include the elimination of approximately 30.57 FTE.

DP 55402 - 4% Personal Services reduction-Agencies - The Governor has included a 4% reduction in general fun personal services budgets as a part of his budget recommendations. This decision package reduces the agencies b $360,223 in FY 2012 and $360,496 in FY 2013 to implement the budget reduction. The reduction includes th elimination of approximately 5.21 FTE.

LFD COMMENT

No specific information was included in the budget request on what positions would be eliminated in the 4% personal services reduction decision package. Without specific information, impacts on services cannot be estimated. The executive recommends HB 2 language requiring the MUS submit this information to the Office of Budget and Program Planning and the Legislative Fiscal Division by ugust 1, 2011.

anguage and Statutory Authority

he executive requests the following language be inserted into HB2:

Program 09 includes a reduction of $2,212,550 general fund in FY 2012 and $2,212,939 in FY 2013 to implement the % general fund personal services reduction. The Board of Regents must supply the Office of Budget and Program lanning and the Legislative Fiscal Division a list of the position numbers and FTE by campus and/or agency associated ith the reduction by no later than August 1, 2011."

Sub-Program Details
EDUCATIONAL UNITS -SP 01

Sub-Program Proposed Budget
The following table summarizes the total executive budget for the sub-program by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget Budget Item	Base Budget Fiscal 2010	PL Base Adjustment Fiscal 2012	New Proposals Fiscal 2012	Total Exec. Budget Fiscal 2012	PL Base Adjustment Fiscal 2013	New Proposals Fiscal 2013	Total Exec. Budget Fiscal 2013	Total Exec. Budget Fiscal 12-13
Transfers	150,608,446	9,709,168	2,958,031	163,275,645	10,873,290	5,297,915	166,779,651	330,055,296
Total Costs	**$150,608,446**	**$9,709,168**	**$2,958,031**	**$163,275,645**	**$10,873,290**	**$5,297,915**	**$166,779,651**	**$330,055,296**
General Fund	101,336,459	40,472,917	2,958,031	144,767,407	40,189,529	5,297,915	146,823,903	291,591,310
State/Other Special	18,318,027	190,211	0	18,508,238	1,637,721	0	19,955,748	38,463,986
Federal Special	30,953,960	(30,953,960)	0	0	(30,953,960)	0	0	0
Total Funds	**$150,608,446**	**$9,709,168**	**$2,958,031**	**$163,275,645**	**$10,873,290**	**$5,297,915**	**$166,779,651**	**$330,055,296**

Sub-Program Description
The educational units budget subprogram includes the state appropriation for the university educational units and the colleges of technology (Montana State University campuses and University of Montana campuses).

Budget Summary by Category
The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent Of Budget
Base Budget	101,336,459	101,336,459	202,672,918	69.51%	150,608,446	150,608,446	301,216,892	91.26%
Statewide PL Adjustments	30,763,749	29,316,239	60,079,988	20.60%	0	0	0	0.00%
Other PL Adjustments	9,709,168	10,873,290	20,582,458	7.06%	9,709,168	10,873,290	20,582,458	6.24%
New Proposals	2,958,031	5,297,915	8,255,946	2.83%	2,958,031	5,297,915	8,255,946	2.50%
Total Budget	**$144,767,407**	**$146,823,903**	**$291,591,310**		**$163,275,645**	**$166,779,651**	**$330,055,296**	

Present Law Adjustments
The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

resent Law Adjustments

	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
					*					*
P 901 - Statewide Present Law Adjustments	0.00	(641,862)	0	0	(641,862)	0.00	(925,174)	0	0	(925,174)
P 902 - Library Inflation	0.00	455,708	0	0	455,708	0.00	937,130	0	0	937,130
P 903 - Information Technology Increases	0.00	455,153	0	0	455,153	0.00	704,243	0	0	704,243
P 905 - Utilities Inflation	0.00	1,696,091	0	0	1,696,091	0.00	1,844,488	0	0	1,844,488
P 906 - New Space	0.00	255,101	0	0	255,101	0.00	265,306	0	0	265,306
P 907 - Other Operating	0.00	329,798	0	0	329,798	0.00	896,335	0	0	896,335
P 908 - Waivers	0.00	5,240,316	0	0	5,240,316	0.00	5,232,858	0	0	5,232,858
P 909 - Faculty Termination Costs	0.00	1,052,513	0	0	1,052,513	0.00	1,052,513	0	0	1,052,513
P 912 - Accounting Adjustment IDC	0.00	28,511	0	0	28,511	0.00	28,511	0	0	28,511
P 913 - Overtime/Comp/Communication Device Allowance	0.00	837,839	0	0	837,839	0.00	837,080	0	0	837,080
Total Other Present Law Adjustments	**0.00**	**$9,709,168**	**$0**	**$0**	**$9,709,168**	**0.00**	**$10,873,290**	**$0**	**$0**	**$10,873,290**
Grand Total All Present Law Adjustments	**0.00**	**$40,472,917**	**$0**	**$0**	**$9,709,168***	**0.00**	**$40,189,529**	**$0**	**$0**	**$10,873,290***

"Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

ew Proposals

he "New Proposals" table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion f each new proposal are included in the individual program narratives.

ew Proposals

		Fiscal 2012					Fiscal 2013				
Sub Program		FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
P 916 - PBS Satellite Up-Linking Fund	01	0.00	200,000	0	0	200,000	0.00	200,000	0	0	200,000
P 917 - Restore MSU Biodiesel Research	01	0.00	200,000	0	0	200,000	0.00	200,000	0	0	200,000
P 918 - University System Funding	01	0.00	5,160,000	0	0	5,160,000	0.00	7,500,000	0	0	7,500,000
P 55140 - Carry Forward FY 2011 17-7-140 reductions Ed Units	01	0.00	(749,642)	0	0	(749,642)	0.00	(749,642)	0	0	(749,642)
P 55401 - 4% Personal Services reduction-Educational Units	01	0.00	(1,852,327)	0	0	(1,852,327)	0.00	(1,852,443)	0	0	(1,852,443)
Total		**0.00**	**$2,958,031**	**$0**	**$0**	**$2,958,031**	**0.00**	**$5,297,915**	**$0**	**$0**	**$5,297,915**

ecision packages requested by the executive are discussed at the program level because many impact more than one ub-program. Please see Figure 2 for a detailed listing of adjustments and the allocation to the individual units and gencies.

Sub-Program Details
AES TRANSFERS - SP 09

Sub-Program Proposed Budget
The following table summarizes the total executive budget for the sub-program by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget Budget Item	Base Budget Fiscal 2010	PL Base Adjustment Fiscal 2012	New Proposals Fiscal 2012	Total Exec. Budget Fiscal 2012	PL Base Adjustment Fiscal 2013	New Proposals Fiscal 2013	Total Exec. Budget Fiscal 2013	Total Exec. Budget Fiscal 12-13
Transfers	12,242,313	412,940	(805,703)	11,849,550	459,958	(805,872)	11,896,399	23,745,949
Total Costs	**$12,242,313**	**$412,940**	**($805,703)**	**$11,849,550**	**$459,958**	**($805,872)**	**$11,896,399**	**$23,745,949**
General Fund	12,242,313	412,940	(805,703)	11,849,550	459,958	(805,872)	11,896,399	23,745,949
Total Funds	**$12,242,313**	**$412,940**	**($805,703)**	**$11,849,550**	**$459,958**	**($805,872)**	**$11,896,399**	**$23,745,949**

Sub-Program Description
The Agricultural Experiment Station (AES) was established at Montana State University in Bozeman by the Montana legislature in 1893 under Hatch Act authorization enacted by the US Congress. The station is the agricultural research component of the land-grant university's three-part mission of teaching, research, and service.

Budget Summary by Category
The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent Of Budget
Base Budget	12,242,313	12,242,313	24,484,626	103.11%	12,242,313	12,242,313	24,484,626	103.11%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	412,940	459,958	872,898	3.68%	412,940	459,958	872,898	3.68%
New Proposals	(805,703)	(805,872)	(1,611,575)	(6.79%)	(805,703)	(805,872)	(1,611,575)	(6.79%)
Total Budget	**$11,849,550**	**$11,896,399**	**$23,745,949**		**$11,849,550**	**$11,896,399**	**$23,745,949**	

Present Law Adjustments
The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

esent Law Adjustments

	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
901 - Statewide Present Law Adjustments	0.00	(160,993)	0	0	(160,993)	0.00	(150,627)	0	0	(150,627)
904 - Admin Assessment	0.00	154,851	0	0	154,851	0.00	146,807	0	0	146,807
905 - Utilities Inflation	0.00	90,034	0	0	90,034	0.00	95,050	0	0	95,050
906 - New Space	0.00	175,112	0	0	175,112	0.00	214,792	0	0	214,792
909 - Faculty Termination Costs	0.00	147,869	0	0	147,869	0.00	147,869	0	0	147,869
913 - Overtime/Comp/Communication Device Allowance	0.00	6,067	0	0	6,067	0.00	6,067	0	0	6,067
Total Other Present Law Adjustments	**0.00**	**$412,940**	**$0**	**$0**	**$412,940**	**0.00**	**$459,958**	**$0**	**$0**	**$459,958**
Grand Total All Present Law Adjustments	**0.00**	**$412,940**	**$0**	**$0**	**$412,940**	**0.00**	**$459,958**	**$0**	**$0**	**$459,958**

ew Proposals

he "New Proposals" table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion f each new proposal are included in the individual program narratives.

w Proposals

		Fiscal 2012					Fiscal 2013				
Sub Program		FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
55141 - Carry Forward FY 2011 17-7-140 reductions Agencies	09	0.00	(615,086)	0	0	(615,086)	0.00	(615,086)	0	0	(615,086)
55402 - 4% Personal Services reduction-Agencies	09	0.00	(190,617)	0	0	(190,617)	0.00	(190,786)	0	0	(190,786)
Total		**0.00**	**($805,703)**	**$0**	**$0**	**($805,703)**	**0.00**	**($805,872)**	**$0**	**$0**	**($805,872)**

ecision packages requested by the executive are discussed at the program level because many impact more than one b-program.

LFD COMMENT

The state percent share calculation for present law adjustments for the research/public service agencies remains the ratio between state funding versus other funding sources in that agency during the FY 2010 base year budget. These other funding sources may include federal revenue, fee-for-service revenue, interest earnings, revenue from product sales, and other unique revenue sources.

ie state share for the Agricultural Experiment Station in the 2013 biennium executive budget is 84%

Sub-Program Details
EXTENSION SERVICE TRF - SP 10

Sub-Program Proposed Budget
The following table summarizes the total executive budget for the sub-program by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget Budget Item	Base Budget Fiscal 2010	PL Base Adjustment Fiscal 2012	New Proposals Fiscal 2012	Total Exec. Budget Fiscal 2012	PL Base Adjustment Fiscal 2013	New Proposals Fiscal 2013	Total Exec. Budget Fiscal 2013	Total Exec. Budget Fiscal 12-13
Transfers	5,723,178	21,629	(389,784)	5,355,023	20,559	(389,853)	5,353,884	10,708,907
Total Costs	**$5,723,178**	**$21,629**	**($389,784)**	**$5,355,023**	**$20,559**	**($389,853)**	**$5,353,884**	**$10,708,907**
General Fund	5,723,178	21,629	(389,784)	5,355,023	20,559	(389,853)	5,353,884	10,708,907
Total Funds	**$5,723,178**	**$21,629**	**($389,784)**	**$5,355,023**	**$20,559**	**($389,853)**	**$5,353,884**	**$10,708,907**

Sub-Program Description

Budget Summary by Category
The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent Of Budget
Base Budget	5,723,178	5,723,178	11,446,356	106.89%	5,723,178	5,723,178	11,446,356	106.89%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	21,629	20,559	42,188	0.39%	21,629	20,559	42,188	0.39%
New Proposals	(389,784)	(389,853)	(779,637)	(7.28%)	(389,784)	(389,853)	(779,637)	(7.28%)
Total Budget	**$5,355,023**	**$5,353,884**	**$10,708,907**		**$5,355,023**	**$5,353,884**	**$10,708,907**	

Present Law Adjustments
The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

esent Law Adjustments

	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
P 901 - Statewide Present Law Adjustments	0.00	(785,562)	0	0	(785,562)	0.00	(784,778)	0	0	(784,778)
P 905 - Utilities Inflation	0.00	4,941	0	0	4,941	0.00	5,221	0	0	5,221
P 906 - New Space	0.00	47,619	0	0	47,619	0.00	49,524	0	0	49,524
P 909 - Faculty Termination Costs	0.00	144,871	0	0	144,871	0.00	144,871	0	0	144,871
P 911 - Agency O&M Reduction	0.00	(98,886)	0	0	(98,886)	0.00	(98,886)	0	0	(98,886)
P 913 - Overtime/Comp/Communication Device Allowance	0.00	12,740	0	0	12,740	0.00	12,740	0	0	12,740
P 914 - Agency Adjustments	0.00	695,906	0	0	695,906	0.00	691,867	0	0	691,867
Total Other Present Law Adjustments	**0.00**	**$21,629**	**$0**	**$0**	**$21,629**	**0.00**	**$20,559**	**$0**	**$0**	**$20,559**
Grand Total All Present Law Adjustments	**0.00**	**$21,629**	**$0**	**$0**	**$21,629**	**0.00**	**$20,559**	**$0**	**$0**	**$20,559**

ew Proposals

he "New Proposals" table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion f each new proposal are included in the individual program narratives.

ew Proposals

		Fiscal 2012					Fiscal 2013				
Sub Program		FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
P 55141 - Carry Forward FY 2011 17-7-140 reductions Agencies	10	0.00	(288,363)	0	0	(288,363)	0.00	(288,363)	0	0	(288,363)
P 55402 - 4% Personal Services reduction-Agencies	10	0.00	(101,421)	0	0	(101,421)	0.00	(101,490)	0	0	(101,490)
Total		**0.00**	**($389,784)**	**$0**	**$0**	**($389,784)**	**0.00**	**($389,853)**	**$0**	**$0**	**($389,853)**

ecision packages requested by the executive are discussed at the program level because many impact more than one ub-program.

LFD COMMENT

The state percent share calculation for present law adjustments for the research/public service agencies remains the ratio between state funding versus other funding sources in that agency during the FY 2010 base year budget. These other funding sources may include federal revenue, fee-for-service revenue, interest earnings, revenue from product sales, and other unique revenue sources.

ne state share for the Extension Service in the 2013 biennium executive budget is 70%.

Sub-Program Details
FCES TRANSFER - SP 11

Sub-Program Proposed Budget
The following table summarizes the total executive budget for the sub-program by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget Budget Item	Base Budget Fiscal 2010	PL Base Adjustment Fiscal 2012	New Proposals Fiscal 2012	Total Exec. Budget Fiscal 2012	PL Base Adjustment Fiscal 2013	New Proposals Fiscal 2013	Total Exec. Budget Fiscal 2013	Total Exec. Budget Fiscal 12-13
Transfers	1,150,413	(66,736)	(73,168)	1,010,509	(65,392)	(73,177)	1,011,844	2,022,353
Total Costs	**$1,150,413**	**($66,736)**	**($73,168)**	**$1,010,509**	**($65,392)**	**($73,177)**	**$1,011,844**	**$2,022,353**
General Fund	1,150,413	(66,736)	(73,168)	1,010,509	(65,392)	(73,177)	1,011,844	2,022,353
Total Funds	**$1,150,413**	**($66,736)**	**($73,168)**	**$1,010,509**	**($65,392)**	**($73,177)**	**$1,011,844**	**$2,022,353**

Sub-Program Description
The Montana Forest and Conservation Experiment Station (FCES) was established by the legislature in 1937 for the scientific investigation of natural resource problems including forestland resources, timber, and relationships between forests and water, pasturage, and recreation. The station is directed by the Dean of the College of Forestry and Conservation that serves as the research unit of the University of Montana College of Forestry and Conservation in Missoula.

Budget Summary by Category
The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent Of Budget
Base Budget	1,150,413	1,150,413	2,300,826	113.77%	1,150,413	1,150,413	2,300,826	113.77%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	(66,736)	(65,392)	(132,128)	(6.53%)	(66,736)	(65,392)	(132,128)	(6.53%)
New Proposals	(73,168)	(73,177)	(146,345)	(7.24%)	(73,168)	(73,177)	(146,345)	(7.24%)
Total Budget	**$1,010,509**	**$1,011,844**	**$2,022,353**		**$1,010,509**	**$1,011,844**	**$2,022,353**	

Present Law Adjustments
The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

esent Law Adjustments

	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
901 - Statewide Present Law Adjustments	0.00	(62,496)	0	0	(62,496)	0.00	(61,152)	0	0	(61,152)
909 - Faculty Termination Costs	0.00	23	0	0	23	0.00	23	0	0	23
911 - Agency O&M Reduction	0.00	(4,263)	0	0	(4,263)	0.00	(4,263)	0	0	(4,263)
Total Other Present Law Adjustments	**0.00**	**($66,736)**	**$0**	**$0**	**($66,736)**	**0.00**	**($65,392)**	**$0**	**$0**	**($65,392)**
Grand Total All Present Law Adjustments	**0.00**	**($66,736)**	**$0**	**$0**	**($66,736)**	**0.00**	**($65,392)**	**$0**	**$0**	**($65,392)**

ew Proposals

he "New Proposals" table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion f each new proposal are included in the individual program narratives.

w Proposals

		Fiscal 2012					Fiscal 2013				
Sub Program		FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
55141 - Carry Forward FY 2011 17-7-140 reductions Agencies	11	0.00	(57,929)	0	0	(57,929)	0.00	(57,929)	0	0	(57,929)
55402 - 4% Personal Services reduction-Agencies	11	0.00	(15,239)	0	0	(15,239)	0.00	(15,248)	0	0	(15,248)
Total		**0.00**	**($73,168)**	**$0**	**$0**	**($73,168)**	**0.00**	**($73,177)**	**$0**	**$0**	**($73,177)**

ecision packages requested by the executive are discussed at the program level because many impact more than one b-program. The explanations for the decision packages included in this subprogram are truncated explanations of the scussion at the program level.

LFD COMMENT

The state percent share calculation for present law adjustments for the research/public service agencies remains the ratio between state funding versus other funding sources in that agency during the FY 2010 base year budget. These other funding sources may include federal revenue, fee-for-service revenue, interest earnings, revenue from product sales, and other unique revenue sources.

ie state percent share for the Forest and Conservation Experiment Station in the 2013 biennium executive budget is 0%.

Sub-Program Details
BUREAU TRANSFERS - SP 12

Sub-Program Proposed Budget
The following table summarizes the total executive budget for the sub-program by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget Budget Item	Base Budget Fiscal 2010	PL Base Adjustment Fiscal 2012	New Proposals Fiscal 2012	Total Exec. Budget Fiscal 2012	PL Base Adjustment Fiscal 2013	New Proposals Fiscal 2013	Total Exec. Budget Fiscal 2013	Total Exec. Budget Fiscal 12-13
Transfers	2,753,552	249,220	(149,610)	2,853,162	250,105	(149,636)	2,854,021	5,707,183
Total Costs	**$2,753,552**	**$249,220**	**($149,610)**	**$2,853,162**	**$250,105**	**($149,636)**	**$2,854,021**	**$5,707,183**
General Fund	1,911,666	249,220	(149,610)	2,011,276	250,105	(149,636)	2,012,135	4,023,411
State/Other Special	841,886	0	0	841,886	0	0	841,886	1,683,772
Total Funds	**$2,753,552**	**$249,220**	**($149,610)**	**$2,853,162**	**$250,105**	**($149,636)**	**$2,854,021**	**$5,707,183**

Sub-Program Description
The Bureau of Mines and Geology (Bureau) is a public service and research agency located at Montana Tech in Butte. The Bureau disseminates information through publications and conducts field and laboratory studies on all mineral resources, metallic and nonmetallic minerals, fuels, and groundwater.

The groundwater assessment programs at the Bureau are funded at 15-38-202, MCA, by the Resource Indemnity Trust Fund, which was created, in part, for the purpose of supporting groundwater assessment programs specific to areas that may experience environmental damage caused by mineral extraction.

Budget Summary by Category
The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent Of Budget
Base Budget	1,911,666	1,911,666	3,823,332	95.03%	2,753,552	2,753,552	5,507,104	96.49%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	249,220	250,105	499,325	12.41%	249,220	250,105	499,325	8.75%
New Proposals	(149,610)	(149,636)	(299,246)	(7.44%)	(149,610)	(149,636)	(299,246)	(5.24%)
Total Budget	**$2,011,276**	**$2,012,135**	**$4,023,411**		**$2,853,162**	**$2,854,021**	**$5,707,183**	

Present Law Adjustments
The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

esent Law Adjustments

	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
901 - Statewide Present Law Adjustments	0.00	210,489	0	0	210,489	0.00	211,374	0	0	211,374
909 - Faculty Termination Costs	0.00	38,731	0	0	38,731	0.00	38,731	0	0	38,731
Total Other Present Law Adjustments	**0.00**	**$249,220**	**$0**	**$0**	**$249,220**	**0.00**	**$250,105**	**$0**	**$0**	**$250,105**
Grand Total All Present Law Adjustments	**0.00**	**$249,220**	**$0**	**$0**	**$249,220**	**0.00**	**$250,105**	**$0**	**$0**	**$250,105**

ew Proposals

he "New Proposals" table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion each new proposal are included in the individual program narratives.

w Proposals

		Fiscal 2012					Fiscal 2013				
Sub Program		FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
55141 - Carry Forward FY 2011 17-7-140 reductions Agencies											
	12	0.00	(96,664)	0	0	(96,664)	0.00	(96,664)	0	0	(96,664)
55402 - 4% Personal Services reduction-Agencies											
	12	0.00	(52,946)	0	0	(52,946)	0.00	(52,972)	0	0	(52,972)
Total		**0.00**	**($149,610)**	**$0**	**$0**	**($149,610)**	**0.00**	**($149,636)**	**$0**	**$0**	**($149,636)**

ecision packages requested by the executive are discussed at the program level because many impact more than one b-program. The explanations for the decision packages included in this subprogram are truncated explanations of the scussion at the program level.

LFD COMMENT

The state percent share calculation for present law adjustments for the research/public service agencies remains the ratio between state funding versus other funding sources in that agency during the FY 2010 base year budget. These other funding sources may include federal revenue, fee-for-service revenue, interest earnings, revenue from product sales, and other unique revenue sources.

ie state percent share for the Bureau of Mines in the 2013 biennium executive budget is 100%.

Sub-Program Details
BUREAU OF MINES GWIP HB 52 13

Sub-Program Proposed Budget
The following table summarizes the total executive budget for the sub-program by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget Budget Item	Base Budget Fiscal 2010	PL Base Adjustment Fiscal 2012	New Proposals Fiscal 2012	Total Exec. Budget Fiscal 2012	PL Base Adjustment Fiscal 2013	New Proposals Fiscal 2013	Total Exec. Budget Fiscal 2013	Total Exec. Budget Fiscal 12-13
Transfers	758,259	0	0	758,259	0	0	758,259	1,516,518
Total Costs	**$758,259**	**$0**	**$0**	**$758,259**	**$0**	**$0**	**$758,259**	**$1,516,518**
General Fund	758,259	0	0	758,259	0	0	758,259	1,516,518
Total Funds	**$758,259**	**$0**	**$0**	**$758,259**	**$0**	**$0**	**$758,259**	**$1,516,518**

Sub-Program Description
The Groundwater Investigation Program was created by HB 52 passed by the 2009 Legislature for the purpose of collecting and compiling ground water and aquifer data in Montana. The enabling legislation requires that the program gather data, compile existing information, conduct field studies, and prepare a detailed hydrogeologic assessment report for each subbasin. The ground water assessment steering committee, established by 2-15-1523, MCA, is charged with prioritizing subbasins for investigation based upon current and anticipated growth of agriculture, industry, housing, and commercial activity.

Budget Summary by Category
The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent Of Budget
Base Budget	758,259	758,259	1,516,518	100.00%	758,259	758,259	1,516,518	100.00%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	**$758,259**	**$758,259**	**$1,516,518**		**$758,259**	**$758,259**	**$1,516,518**	

LFD ISSUE

HB 52 Base Funding

The executive budget includes $1.5 million general fund in the 2013 biennium for the Groundwater Investigation Program established in HB 52 and passed by the 2009 Legislature. However, the amount included in the executive budget is $2.7 million less than the original $4.2 million appropriation approved by the 2009 Legislature. The original appropriation was reduced $500,000 in FY 2011 for the 17-7-140 reductions, leaving a $3.7 million appropriation for the 2011 biennium. The issue arises because of a lack of clarity of whether the funding provided in HB 52 was intended to be ongoing or one-time-only.

LFD ISSUE CONT.

The following is paraphrased from an analysis provided by legislative legal staff to the chairman of the Water Policy Interim Committee in the 2011 biennium:

"HB 52 created the ground water investigation program as an ongoing program within the Montana Bureau of Mines. HB 52 was introduced with a $4.2 million general fund appropriation for the program. The House Appropriations Committee reduced the appropriation to $900,000. The bill remained unchanged, was passed, and sent to the Governor late in the 2009 session. The Governor returned the bill with a recommended amendment increasing the appropriation to $4.2 million as originally introduced, stating within his message accompanying the recommended amendment that the funds were one-time-only. The House of Representatives and the Senate adopted the Governor's recommended amendment to restore the appropriation to $4.2 million. The House and the Senate do not adopt the message accompanying a recommended amendment, but vote only on the recommended amendment itself.

In addition, treating the funding as "one-time-only is not consistent with state budgeting and appropriation law. The base budget is defined as the resources for the operation of state government that are of an ongoing and non-extraordinary nature, and present law base generally means the level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature (Section 17-7-102, MCA)"

Sub-Program Details
FSTS TRANSFERS - SP 19

Sub-Program Proposed Budget
The following table summarizes the total executive budget for the sub-program by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget Budget Item	Base Budget Fiscal 2010	PL Base Adjustment Fiscal 2012	New Proposals Fiscal 2012	Total Exec. Budget Fiscal 2012	PL Base Adjustment Fiscal 2013	New Proposals Fiscal 2013	Total Exec. Budget Fiscal 2013	Total Exec. Budget Fiscal 12-13
Transfers	741,523	42,641	(37,220)	746,944	44,584	(37,220)	748,887	1,495,831
Total Costs	**$741,523**	**$42,641**	**($37,220)**	**$746,944**	**$44,584**	**($37,220)**	**$748,887**	**$1,495,831**
General Fund	741,523	42,641	(37,220)	746,944	44,584	(37,220)	748,887	1,495,831
Total Funds	**$741,523**	**$42,641**	**($37,220)**	**$746,944**	**$44,584**	**($37,220)**	**$748,887**	**$1,495,831**

Sub-Program Description
The Fire Services Training School (FSTS) located in Great Falls and authorized at 20-31-102, MCA works to organize, supervise, and coordinate training and education for state fire services personnel across Montana in accordance with local needs and the standards established by the Board of Regents.

Budget Summary by Category
The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent Of Budget
Base Budget	741,523	741,523	1,483,046	99.15%	741,523	741,523	1,483,046	99.15%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	42,641	44,584	87,225	5.83%	42,641	44,584	87,225	5.83%
New Proposals	(37,220)	(37,220)	(74,440)	(4.98%)	(37,220)	(37,220)	(74,440)	(4.98%)
Total Budget	**$746,944**	**$748,887**	**$1,495,831**		**$746,944**	**$748,887**	**$1,495,831**	

Present Law Adjustments
The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

esent Law Adjustments

	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
901 - Statewide Present Law Adjustments	0.00	16,383	0	0	16,383	0.00	16,871	0	0	16,871
909 - Faculty Termination Costs	0.00	10,019	0	0	10,019	0.00	10,019	0	0	10,019
910 - Lease of Office Space	0.00	2,109	0	0	2,109	0.00	3,564	0	0	3,564
914 - Agency Adjustments	0.00	14,130	0	0	14,130	0.00	14,130	0	0	14,130
Total Other Present Law Adjustments	**0.00**	**$42,641**	**$0**	**$0**	**$42,641**	**0.00**	**$44,584**	**$0**	**$0**	**$44,584**
Grand Total All Present Law Adjustments	**0.00**	**$42,641**	**$0**	**$0**	**$42,641**	**0.00**	**$44,584**	**$0**	**$0**	**$44,584**

ew Proposals

he "New Proposals" table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion each new proposal are included in the individual program narratives.

w Proposals

		Fiscal 2012					Fiscal 2013				
Sub Program		FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
55141 - Carry Forward FY 2011 17-7-140 reductions Agencies											
	19	0.00	(37,220)	0	0	(37,220)	0.00	(37,220)	0	0	(37,220)
Total		**0.00**	**($37,220)**	**$0**	**$0**	**($37,220)**	**0.00**	**($37,220)**	**$0**	**$0**	**($37,220)**

ecision packages requested by the executive are discussed at the program level because many impact more than one b-program.

LFD COMMENT

The state percent share calculation for present law adjustments for the research/public service agencies remains the ratio between state funding versus other funding sources in that agency during the FY 2010 base year budget. These other funding sources may include federal revenue, fee-for-service revenue, interest earnings, revenue from product sales, and other unique revenue sources.

ıe state percent share for the Fire Services Training School in the 2013 biennium executive budget is 100%.

Sub-Program Details
MOTORCYCLE SAFETY 24

Sub-Program Proposed Budget
The following table summarizes the total executive budget for the sub-program by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget Budget Item	Base Budget Fiscal 2010	PL Base Adjustment Fiscal 2012	New Proposals Fiscal 2012	Total Exec. Budget Fiscal 2012	PL Base Adjustment Fiscal 2013	New Proposals Fiscal 2013	Total Exec. Budget Fiscal 2013	Total Exec. Budget Fiscal 12-13
Transfers	275,000	100,000	0	375,000	100,000	0	375,000	750,000
Total Costs	**$275,000**	**$100,000**	**$0**	**$375,000**	**$100,000**	**$0**	**$375,000**	**$750,000**
State/Other Special	275,000	100,000	0	375,000	100,000	0	375,000	750,000
Total Funds	**$275,000**	**$100,000**	**$0**	**$375,000**	**$100,000**	**$0**	**$375,000**	**$750,000**

Sub-Program Description
Montana State University-Northern sponsors the Montana Motorcycle Rider Safety program. Every summer, the program provides basic and advanced motorcycle safety training across the state. The program is funded from motorcycle safety training course fees and motorcycle endorsement fees.

Budget Summary by Category
The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent Of Budget
Base Budget	0	0	0	0.00%	275,000	275,000	550,000	73.33%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	0	0	0	0.00%	100,000	100,000	200,000	26.67%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	**$0**	**$0**	**$0**		**$375,000**	**$375,000**	**$750,000**	

Present Law Adjustments
The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

resent Law Adjustments

	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
P 915 - Motorcycle Safety Program	0.00	0	100,000	0	100,000	0.00	0	100,000	0	100,000
Total Other Present Law Adjustments	**0.00**	**$0**	**$100,000**	**$0**	**$100,000**	**0.00**	**$0**	**$100,000**	**$0**	**$100,000**
Grand Total All Present Law Adjustments	**0.00**	**$0**	**$100,000**	**$0**	**$100,000**	**0.00**	**$0**	**$100,000**	**$0**	**$100,000**

Program Budget Comparison

The following table summarizes the total executive budget for the program by year, type of expenditure, and source o funding.

Program Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
Grants	441,002	441,002	842,085	842,085	882,004	1,684,170	802,166	90.95%
Total Costs	**$441,002**	**$441,002**	**$842,085**	**$842,085**	**$882,004**	**$1,684,170**	**$802,166**	**90.95%**
General Fund	441,002	441,002	842,085	842,085	882,004	1,684,170	802,166	90.95%
Total Funds	**$441,002**	**$441,002**	**$842,085**	**$842,085**	**$882,004**	**$1,684,170**	**$802,166**	**90.95%**

Program Description

The Tribal College Assistance program provides funding to tribal colleges to support a portion of the costs of educatin nonbeneficiary Montana students (non-tribal members) attending the seven tribal community colleges on the reservatio in Montana. Section 20-25-428, MCA requires the Board of Regents to provide assistance to tribal colleges "subject to line item appropriation" by the legislature, up to a maximum of $3,024 per year for each nonbeneficiary student FTE The statute does not establish a minimum appropriation level.

Tribal colleges are under federal jurisdiction to provide postsecondary education for tribal members but the college receive no federal funding assistance to support the costs of education for nonbeneficiary students. Since student tuitio rates typically do not cover the full cost of education, as the federal subsidy allows lower tuition rates, state funding t support nonbeneficiary resident students is intended to keep tuition rates lower for these Montana students as well.

Program Highlights

Tribal College Assistance Program
Major Budget Highlights

- This program is funded entirely from general fund
- The executive budget increases on-going program funding 91% in the 2013 biennium
- The executive budget reinstates one-time-only funding that had been provided to this program in HB 645 in the 2011 biennium
- The Governor carries forward the FY 2011 budget reduction implemented in Spring 2010
- Assuming relatively level nonbeneficiary student enrollment at the Tribal Colleges in the 2013 biennium, the average state funds per student distributed to the Tribal Colleges would decrease from $3,024 in FY 2010 (the statutory maximum) to approximately $2,807 in both FY 2012 and FY 2013

Program Narrative

Goals and Objectives

2013 Biennium Goal

The Legislative Finance Committee recommends that goals and objectives for the Montana University System b reviewed and monitored at the agency level. Please refer to the agency narrative for a discussion of the identifie significant goals for the 2013 biennium.

% Reduction Plan

tatute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The gency's 5% reduction plan reduces expenditures in this program by $57,915 per year. If the legislature adopts the 5% eduction plan for this program no further action on the decision packages is necessary.

unding

he following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by e Governor.

Program Funding Table
Tribal College Assistance Pgm

Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000 Total General Fund	$ 441,002	100.0%	$ 842,085	100.0%	$ 842,085	100.0%
01100 General Fund	441,002	100.0%	842,085	100.0%	842,085	100.0%
Grand Total	$ 441,002	100.0%	$ 842,085	100.0%	$ 842,085	100.0%

his program is funded entirely from general fund. The executive increases funding 91% for this program in the 2013 iennium by restoring $458,998 general fund each year that was appropriated in HB 645 in the 2011 biennium for this rogram.

LFD COMMENT

This table illustrates a recent history of actual program expenditures, the Governor's recommendation for the 2013 biennium, and the changes in average state funds per nonbeneficiary student over the same time horizon.

State Funding for Nonbeneficiary Montana Students Attending Tribal Community Colleges
FY 2006 through 2013

Fiscal Year	Number of Nonbeneficiary Montana Students Reported*	State Funds Distributed for Nonbeneficiary Students: One-Time	On-Going	Total	Average State Funds per Nonbeneficiary Student
FY 2006 Actual	298.11	$80,183	$400,000	$480,183	$1,611
FY 2007 Actual	307.87	419,817	0	$419,817	$1,364
FY 2008 Actual	301.39	461,401	450,002	$911,403	$3,024
FY 2009 Actual	312.02	552,599	450,000	$1,002,599	$3,213
FY 2010 Actual	273.13	384,944	441,002	$825,946	$3,024
FY 2011 Budget	300.00	515,056	383,087	$898,143	$2,994
FY 2012 Executive Budget	300.00	0	842,085	$842,085	$2,807
FY 2013 Executive Budget	300.00	0	842,085	$842,085	$2,807

*FY 2011-2013 Number of Nonbeneficiary Montana Students are estimated
**Per Section 20-25-428, MCA there is a maximum distribution of $3,024 per nonbeneficiary student per year

s shown, the average state funds per student distributed to the Tribal Colleges would decrease from $3,024 in FY 2010 he statutory maximum) to approximately $2,807 in both FY 2012 and FY 2013.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	441,002	441,002	882,004	52.37%	441,002	441,002	882,004	52.37%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	401,083	401,083	802,166	47.63%	401,083	401,083	802,166	47.63%
Total Budget	**$842,085**	**$842,085**	**$1,684,170**		**$842,085**	**$842,085**	**$1,684,170**	

Program Personal Services Narrative

There are no personal services budgeted in this program.

New Proposals

The "New Proposals" table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals	Fiscal 2012					Fiscal 2013				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1101 - Funding for Non-Beneficiary Student Assistance										
11	0.00	458,998	0	0	458,998	0.00	458,998	0	0	458,998
DP 55140 - Carry Forward FY 11 17-7-140 Reductions										
11	0.00	(57,915)	0	0	(57,915)	0.00	(57,915)	0	0	(57,915)
Total	**0.00**	**$401,083**	**$0**	**$0**	**$401,083**	**0.00**	**$401,083**	**$0**	**$0**	**$401,083**

DP 1101 - Funding for Non-Beneficiary Student Assistance - This decision package restores the one-time-only funding contained in HB 645 for the 2011 biennium. The adjustment adds $917,996 general fund in the 2013 biennium to the Tribal College Assistance program.

DP 55140 - Carry Forward FY 11 17-7-140 Reductions - The executive carries forward the FY 2011 budget reduction implemented in spring 2010 to address declining state revenues.

LFD COMMENT

For an illustration of the impact of this reduction, see the comment in the funding section of this narrative.

'rogram Budget Comparison

'he following table summarizes the total executive budget for the program by year, type of expenditure, and source of ınding.

'ogram Budget Comparison ıdget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
TE	54 20	54.20	45.00	45.00	54 20	45.00	(9.20)	(16.97%)
;rsonal Services	2,109,235	3,170,360	2,245,821	2,252,648	5,279,595	4,498,469	(781,126)	(14.80%)
perating Expenses	3,441,376	5,093,798	3,448,058	3,433,359	8,535,174	6,881,417	(1,653,757)	(19.38%)
quipment & Intangible Assets	0	44,686	0	0	44,686	0	(44,686)	(100.00%)
:nefits & Claims	25,813,316	42,148,362	32,313,316	38,813,316	67,961,678	71,126,632	3,164,954	4.66%
ansfers	71,678	98,322	71,678	71,678	170,000	143,356	(26,644)	(15.67%)
ebt Service	43,480	46,520	43,480	43,480	90,000	86,960	(3,040)	(3.38%)
Total Costs	**$31,479,085**	**$50,602,048**	**$38,122,353**	**$44,614,481**	**$82,081,133**	**$82,736,834**	**$655,701**	**0.80%**
deral Special	31,479,085	50,602,048	38,122,353	44,614,481	82,081,133	82,736,834	655,701	0.80%
Total Funds	**$31,479,085**	**$50,602,048**	**$38,122,353**	**$44,614,481**	**$82,081,133**	**$82,736,834**	**$655,701**	**0.80%**

rogram Description

he Montana Guaranteed Student Loan Program (MGSLP) operates under federal regulation with federal funds to uarantee student loans that are made by private lenders to higher education students in Montana. MGSLP purchases nd services student loans that are in default with the private lender, works with students to prevent default, collects the utstanding balance of the defaulted loan for repayment to the U.S. Department of Education, and provides training and chnical assistance to schools and lenders.

ffective July 1, 2010 all new student loans will be issued and serviced through the U.S. Department of Education's illiam D. Ford Direct Loan Program. The Student Aid and Financial Reform Act (SAFRA) passed by Congress rminated the Federal Family Education Loan Program (FFELP). MGSLP will continue its guarantee functions for FELP student loans issued prior to July 1, 2010.

IGSLP also administers several state and federal grant and scholarship programs and the Montana Family Education avings Program. Expenditures for the student aid administration services performed by MGSLP are recorded in the tudent Assistance Program.

rogram Highlights

Guaranteed Student Loan Program
Major Budget Highlights

- This program is funded primarily from federal payments from the U.S. Department of Education
- Recent changes in federal higher education legislation have impacted the operation and scope of this program
- The executive budget eliminates 9.20 FTE each year due to the impact of recent federal legislation that changed the student loan program
- The executive recommends budget increases totaling $19.5 million in the 2013 biennium for anticipated growth in the number of defaulted borrowers and corresponding collection costs

Program Narrative

Goals and Objectives

2013 Biennium Goal

The Legislative Finance Committee recommends that goals and objectives for the Montana University System b reviewed and monitored at the agency level. Please refer to the agency narrative for a discussion of the identifie significant goals for the 2013 biennium.

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. N table is included because this program is funded from federal special revenue.

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended b the Governor.

Program Funding Table
Guaranteed Student Loan Pgm

Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
03000 Total Federal Special Funds	$ 31,479,085	100.0%	$ 38,122,353	100.0%	$ 44,614,481	100.0%
03400 Guaranteed Stdt. Loan-Admin.	9,455,377	30.0%	11,098,645	29.1%	12,590,773	28.2%
03401 U.S. Dept Ed / Gsl Recall Acct	22,016,115	69.9%	27,016,115	70.9%	32,016,115	71.8%
03410 Gear Up Essay Scholarship	7,593	0.0%	7,593	0.0%	7,593	0.0%
Grand Total	$ 31,479,085	100.0%	$ 38,122,353	100.0%	$ 44,614,481	100.0%

This program is funded primarily from federal funds from the U.S. Department of Education relating to the operation o the program. The executive budget would result in a biennial budget increase of less than 1%.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category

	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	0	0	0	0.00%	31,479,085	31,479,085	62,958,170	76.09%
Statewide PL Adjustments	0	0	0	0.00%	499,139	490,508	989,647	1.20%
Other PL Adjustments	0	0	0	0.00%	6,144,129	12,644,888	18,789,017	22.71%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	**$0**	**$0**	**$0**		**$38,122,353**	**$44,614,481**	**$82,736,834**	

resent Law Adjustments

he "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these ems were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative escriptions.

esent Law Adjustments

	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
rsonal Services					600,848					607,167
cancy Savings					(108,391)					(108,642)
flation/Deflation					4,826					5,278
xed Costs					1,856					(13,295)
Total Statewide Present Law Adjustments		**$0**	**$0**	**$499,139**	**$499,139**		**$0**	**$0**	**$490,508**	**$490,508**
P 1201 - Increase in Claim Payments	0.00	0	0	5,000,000	5,000,000	0.00	0	0	10,000,000	10,000,000
P 1202 - Increased Collection Costs	0.00	0	0	1,500,000	1,500,000	0.00	0	0	3,000,000	3,000,000
P 1203 - MGSLP FTE Reduction	(9.20)	0	0	(355,871)	(355,871)	(9 20)	0	0	(355,112)	(355,112)
Total Other Present Law Adjustments	**(9.20)**	**$0**	**$0**	**$6,144,129**	**$6,144,129**	**(9.20)**	**$0**	**$0**	**$12,644,888**	**$12,644,888**
Grand Total All Present Law Adjustments	**(9.20)**	**$0**	**$0**	**$6,643,268**	**$6,643,268**	**(9.20)**	**$0**	**$0**	**$13,135,396**	**$13,135,396**

rogram Personal Services Narrative

he agency did not provide a program level personal services narrative. Please refer to the agency narrative for a iscussion of the Office of the Commissioner of Higher Education pay plan and personal services costs.

P 1201 - Increase in Claim Payments - The executive proposes increasing the budget authority for the Montana uaranteed Student Loan Program (MGSLP) $15.0 million from the 2011 biennium as it continues to experience growth the number of Lender Request for Assistance (LRA) filed for defaulted borrowers. The increase in the number of efaulted borrowers is attributed to the downturn in the economy. As the guarantor, MGSLP purchases the loan from the nder and is tasked with collecting on the loan. The increase in defaulted loans purchased in FY 2010 is 25%.

P 1202 - Increased Collection Costs - The executive proposes increasing the budget authority for the MGSLP $4.5 illion from the 2011 biennium for anticipated increased collection costs directly related to both the amount of default aims paid and the amount of defaulted loan dollars collected. With projected increases in claim payments based on a eak economy, there will be more collections and associated collection costs being forwarded to the Department of ducation. MGSLP has seen a 25% increase in the number of defaulted claims filed.

P1203 MGSLP FTE Reduction – In March of FY 2010, Congress passed the Student Aid and Financial Reform Act AFRA) that eliminated the Federal Family Education Loan Program (FFELP) as of July 1, 2010. All new student ans will be made through the Direct Loan Program which eliminates the need for the loan origination function and the an disbursement function within the MGSLP. Based on the reduced staffing needs, the executive budget reduces 9.20 TE positions and $0.71 million federal special revenue from the program in the 2013 biennium.

Program Budget Comparison
The following table summarizes the total executive budget for the program by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
Personal Services	4,600	6,340	6,300	6,300	10,940	12,600	1,660	15.17%
Operating Expenses	44,471	44,050	39,437	39,437	88,521	78,874	(9,647)	(10.90%)
Total Costs	**$49,071**	**$50,390**	**$45,737**	**$45,737**	**$99,461**	**$91,474**	**($7,987)**	**(8.03%)**
General Fund	49,071	50,390	45,737	45,737	99,461	91,474	(7,987)	(8.03%)
Total Funds	**$49,071**	**$50,390**	**$45,737**	**$45,737**	**$99,461**	**$91,474**	**($7,987)**	**(8.03%)**

Program Description
The Board of Regents program provides secretarial support, travel and per diem for the Board of Regents. The Board of Regents has full power, responsibility, and authority to supervise, coordinate, manage, and control the Montana University System under Article X, Section 9, Montana Constitution, and 20-25-301, MCA.

Program Highlights

Board of Regents
Major Budget Highlights

- The budget is entirely general fund
- The Governor proposes to decrease this program's budget by 8% from the previous biennium
  - Travel and dues expenses would be reduced 14% annually
  - Board per diem allowances are fully budgeted for the 2013 biennium

Program Narrative

Goals and Objectives

2013 Biennium Goal

The Legislative Finance Committee recommends that goals and objectives for the Montana University System be reviewed and monitored at the agency level. Please refer to the agency narrative for a discussion of the identified significant goals for the 2013 biennium.

5% Reductions
Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The agency's 5% reduction plan reduces operating expenditures in this program by $5,034 per year which would reduce the funds available for meeting costs and supplies and materials. If the legislature adopts the 5% reduction plan for this program no further action on the decision packages is necessary.

'unding

'he following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by ıe Governor.

Program Funding Table
Board Of Regents-Admin

Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000 Total General Fund	$ 49,071	100.0%	$ 45,737	100.0%	$ 45,737	100.0%
01100 General Fund	49,071	100.0%	45,737	100.0%	45,737	100.0%
Grand Total	$ 49,071	100.0%	$ 45,737	100.0%	$ 45,737	100.0%

;his program is funded entirely by state general fund.

;udget Summary by Category

'he following summarizes the total budget by base, present law adjustments, and new proposals.

ıdget Summary by Category

	General Fund				Total Funds			
ıdget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
ıse Budget	49,071	49,071	98,142	107.29%	49,071	49,071	98,142	107.29%
ıatewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
ther PL Adjustments	1,700	1,700	3,400	3.72%	1,700	1,700	3,400	3.72%
ew Proposals	(5,034)	(5,034)	(10,068)	(11.01%)	(5,034)	(5,034)	(10,068)	(11.01%)
Total Budget	**$45,737**	**$45,737**	**$91,474**		**$45,737**	**$45,737**	**$91,474**	

resent Law Adjustments

he "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these ems were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative escriptions.

esent Law Adjustments

	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
P 1301 - Board of Regents Per Diem	0.00	1,700	0	0	1,700	0.00	1,700	0	0	1,700
Total Other Present Law Adjustments	**0.00**	**$1,700**	**$0**	**$0**	**$1,700**	**0.00**	**$1,700**	**$0**	**$0**	**$1,700**
Grand Total All Present Law Adjustments	**0.00**	**$1,700**	**$0**	**$0**	**$1,700**	**0.00**	**$1,700**	**$0**	**$0**	**$1,700**

rogram Personal Services Narrative

o salaries are appropriated under this program. Only per diem is appropriated under the personal services category to imburse members of the Board of Regents.

P 1301 - Board of Regents Per Diem - The executive restores the Board of Regents per diem budget. The per diem ıdget is calculated based on 7 regents attending 6 meetings per year that run for 3 days at a rate of $50 per day. Since ere was $4,600 in the base budget that carried forward to FY 2012 and FY 2013, the adjustment is for the difference of ,700.

New Proposals

The "New Proposals" table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals	Fiscal 2012					Fiscal 2013				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 55140 - Carry Forward FY 11 17-7-140 Reductions										
13	0.00	(5,034)	0	0	(5,034)	0.00	(5,034)	0	0	(5,034)
Total	**0.00**	**($5,034)**	**$0**	**$0**	**($5,034)**	**0.00**	**($5,034)**	**$0**	**$0**	**($5,034)**

DP 55140 - Carry Forward FY 11 17-7-140 Reductions - The Governor made reductions to agencies' 2011 biennium general fund budgets in accordance with 17-7-140, MCA. A portion of the reductions was effective in FY 2011 and therefore is not reflected in the base. This reduction is to continue the original reduction in the 2013 biennium.

LONG-RANGE PLANNING

Section F

JOINT SUBCOMMITTEE OF HOUSE APPROPRIATIONS AND SENATE FINANCE AND CLAIMS COMMITTEES

----------Programs----------

Long-Range Building Program
State Building Energy Conservation
Long-Range Information Technology Program
Treasure State Endowment Program
Tresure State Endowment Regional Water System Program
Renewable Resource Grant & Loan Program
Reclamation & Development Grant Program
Cultural and Aesthetic Grant Program
Quality School Facilities Program

----------Committee Members----------

House

Representative Walter McNutt (Chair)
Representative Ron Ehli
Representative Rob Cook
Representative Jon Sesso
Representative Bill McChesney

Senate

Senator Taylor Brown
Senator Jon Sonju
Senator Carol Williams

----------Fiscal Division Staff----------

Catherine Duncan

LONG-RANGE PLANNING PROGRAMS OVERVIEW

Long-Range Planning Description

Generally, LRP programs are devoted to the creation and upkeep of major state infrastructure. That said, LRP programs do not include the state roads and highway construction and maintenance programs. Most of the projects that come through the programs require more than one biennium to complete and bear significant costs. As such, the legislature chose to move projects out of the individual agency budgets and analyze and fund the programs as separate budgetary components. The LRP budget analysis typically focuses on eight programs, and in the 2013 biennium a ninth program will be added to the list, the Quality Schools Facilities Program. The nine programs include:

- Long-Range Building Program (LRBP) – acquisition, construction, and major maintenance of state owned lands and buildings, administered by Department of Administration
- State Building Energy Conservation Program (SBECP) – energy efficiency improvements to state owned buildings, administered by Department of Environmental Quality
- Long-Range Information Technology Program (LRITP) – major information technology build and upgrade, administered by Department of Administration
- Treasure State Endowment Program (TSEP) – water infrastructure grants to local governments, administered by the Department of Commerce
- Treasure State Endowment Regional Water Program (TSEPRW) – matching funds for major regional water projects, administered by the Department of Natural Resources and Conservation
- Renewable Resource Grant and Loan Program (RRGL) – water conservation grants and loans to local governments, administered by the Department of Natural Resources and Conservation
- Reclamation and Development Grant Program (RDGP) – grants for the reclamation of lands degraded by severance activities, administered by the Department of Natural Resources and Conservation
- Cultural and Aesthetic Grant Program (C&A) – arts and historical grants, administered by the Montana Arts Council
- Quality School Facility Grants Program (QSFP) – grants for major maintenance of K-12 school facilities (initial appearance in LRP), administered by the Department of Commerce

Long-Range Planning projects are administered by various state agencies, but the provision of services is similar in each of the programs. First, project requests are received by the program either from state agencies, local governments, or private entities. With prioritization a key element of establishing the LRP budgets, project requests are reviewed by the particular agency, board, or council and ranked, or prioritized, based on program specifications. Next, the governor reviews the list of requests, determines the level of funding available for projects, and presents a list of funded project recommendations to the legislature in the form of a separate funding bill. In most cases, the program legislation will include a single appropriation based on the amount of funds expected to be available for the projects/grants costs. If the legislature agrees to appropriate funds and authorize the various projects, money is distributed to private contractors, generally through a competitive bid process. In most cases, program funds also cover the administrative costs of the program and are appropriated in the general appropriations act.

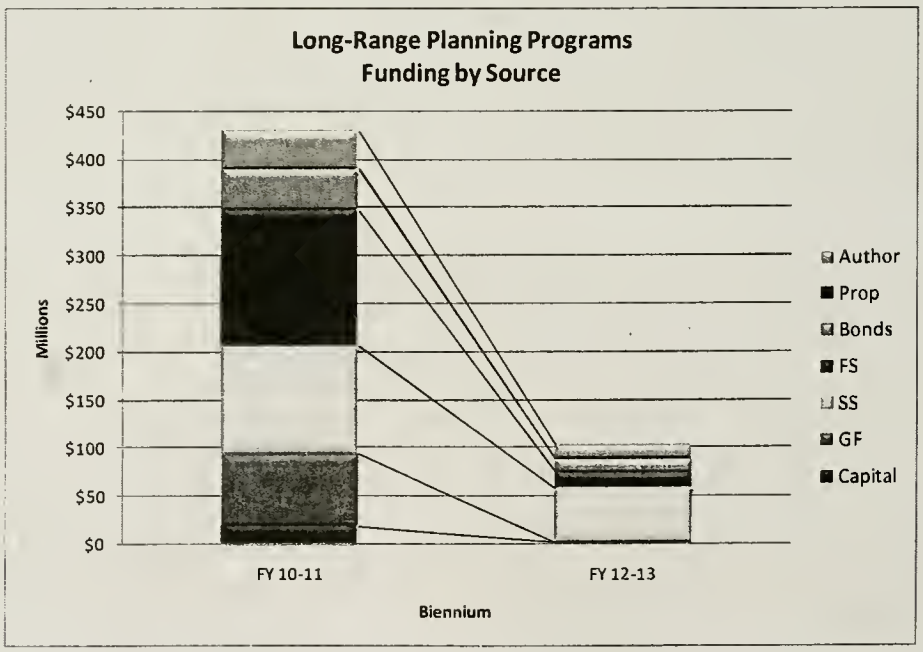
The legislature's work with the LRP budget differs in several ways from the work of other joint subcommittees. One important difference is that the LRP programs do not have a "base" budget. In LRP budget negotiations, the legislature does not consider matters of fixed costs, FTE and pay plan issues, or changes from the base. Instead, the legislature may discuss the space and IT needs of agencies related to their project requests, as well as the needs of local governments and individuals as they relate to the particular program. Unlike most of the agency budgets, the LRP programs might be thought of as one-time only appropriations. When funding is requested for any specific project, the funding needs do not continue in the same way that agency programs continue. For state agency projects, there may be increased need for maintenance dollars in the future, but the project itself is finished. In the case of the various LRP grant programs, there is no need for future state support at all. Finally, the LRP budget is presented as a set of recommended programs. While the agency budgets work with the base budget and feature decision packages (DP's) for the legislature, the LRP budget does not have DP's. In fact, the entire budget is essentially a set of DP's for project spending.

Long-Range Planning Budget Comparison

The following table summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

Long-Range Planning Budget Comparison (in millions) Budget Item	Budget FY 10-11	Budget FY 12-13	Biennium Change	Biennium % Change
Long-Range Building Program (LRBP)	$208.800	$62.484	($146.317)	-70.1%
State Building Energy Conservation Program (SBECP)	23.238	0.000	(23.238)	-100.0%
Long-Range Information Technology Program (LRITP)	99.252	0.000	(99.252)	-100.0%
Treasure State Endowment Program (TSEP)	33.854	1.000	(32.854)	-97.0%
Treasure State Regional Water Program (TSEPRW)	15.000	0.000	(15.000)	-100.0%
Renewable Resource Grant and Loan Program (RRGL)	29.963	20.934	(9.029)	-30.1%
Reclamation and Development Grant Program (RDGP)	7.027	6.849	(0.178)	-2.5%
Cultural and Aesthetic Grant Program (C&A)	0.915	0.725	(0.190)	-20.8%
Quality Schools Grant Program (QSFP)	11.658	12.069	0.411	3.5%
Total Costs	**$429.708**	**$104.062**	**($325.647)**	**-75.8%**
Capital Projects Fund (Capital)	$18.865	$2.420	($16.445)	-87.2%
General Fund (GF)	74.446	0.000	(74.446)	-100.0%
State Special (SS)	112.388	56.447	(55.942)	-49.8%
Federal Special (FS)	141.889	16.886	(125.003)	-88.1%
Bonds and Loans (Bonds)	41.571	13.724	(27.846)	-67.0%
Proprietary Fund (Prop)	1.750	0.250	(1.500)	-85.7%
Authorization (Author)	38.800	14.335	(24.465)	-63.1%
Total Funds	**$429.708**	**$104.062**	**($325.647)**	**-75.8%**

The executive proposes total Long-Range Planning (LRP) budgets of $104.1 million, as shown in the figure above. This is 75.8% less than the LRP budgets in the 2011 biennium. In the 2013 biennium, the largest source of program funding is state special revenue and there is no general fund proposed to be appropriated in any of the programs. In the upcoming biennium, the greatest amounts of appropriations are proposed for the Long-Range Building Program (LRBP). The figure below shows the comparison of the LRP budgets by funding source.



LRP Highlights

Long-Range Planning
Major Budget Highlights

- $104.1 million of appropriations for six of the nine LRP programs
- 2013 biennial proposal is 75.8% less than the 2011 biennium
  - 71% reduction in LRP budgets
  - Three programs (four if counting TSEP with a $1.0 million recommended appropriation) are not funded in the 2013 biennium

Legislative Action Issues

- The executive budget makes policy decisions that the Legislature will need to review and prioritize
- Total reduction of several programs that provide funds that may impact the economy and employment of the state
- Undeveloped executive proposals in initial executive budget

Long-Range Planning Discussion

The LRP budgets include total funds appropriations of $104.1 million for the 2013 biennium. This is 75.8% less than the total funds appropriations of the 2011 biennium. A small portion of the decrease can be tied to the fact that in the 2011 biennium, general funds "freed-up" through the addition of federal special funds to what were typically general fund supported programs. In 2009, the legislature made a policy decision that it would be prudent to expend these "one-time only" freed-up dollars for projects of a one-time only nature. In the 2013 biennium, when funds are tight, the executive budget does not recommend general fund support of the LRP programs. Additionally, $22.0 million of the federal funds appropriated in the 2011 biennium can be directly traced to funding from the American Recovery and Reinvestment Act of 2009 (ARRA) as appropriations to the State Building Energy Conservation Program (SBECP). After adjusting for these two inputs to the 2011 biennium budget, the change to LRP budgets represents a reduction of $229.5 million, or 68.8%, of the LRP budget traditional funds.

Reduction Proposals

The LRP budget will not include a 5% reduction plan. As mentioned above, there is no base in the LRP budget. However, the comparison table on the top of page F-1 shows the program reductions that have been proposed for the LRP programs. The only LRP program that is increased in the 2013 is the Quality Schools Facilities Program (QSFP), with proposed growth of 3.5%.

General Fund Enhancements from LRP Programs

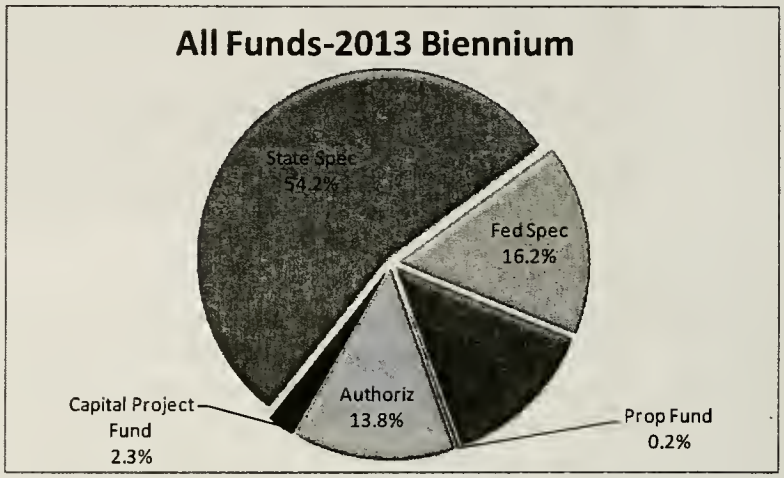
Program	Description	Action	General Fund Impact
LRBP	Project reduction / elimination	Transfer of Funds	$10,685,622
LRBP	Program funds reduction	Transfer of Funds	1,000,000
LRITP	Project reduction / elimination	Transfer of Funds	10,737,033
TSEP	Program funds reduction	Transfer of Funds	17,614,270
TSEPRW	Program funds reduction	Transfer of Funds	4,823,825
QSFP	Temporary funding reduction	Statutory change	8,470,261
QSFP	Debt-service funding switch	Legislative change	17,172,000
Total Proposed Enhancements from LRP Programs			$70,503,011

As mentioned above, the executive budget will not support any of the LRP programs with general fund transfers in the 2013 biennium and most of the programs will have a smaller budget than in the 2011 biennium. Additionally, many of the programs are recommended for significant reductions and in some cases (4 programs) the dedicated program funds are recommended to be transferred to the general fund. In short, the executive theme for LRP budgets in

the 2013 biennium is significant reduction. The figure above shows the various proposals for "enhancement of the general fund" through the LRP budgetary funds. The general fund will benefit by $70.5 million if the legislature agrees with all the executive proposals.

Funding

In large part, LRP programs are fully financed with statutorily dedicated allocations of funds. Generally the program/project budget is strictly based on the amount of revenue estimated to be available for the program. The revenues come from a variety of sources including various tax allocations and in several cases interest earnings from dedicated trusts. The only exception from program dedicated revenue is seen in the LRITP. The LRITP was established by the Sixtieth Legislature, but no funding source was dedicated to the program. Consequently, the program relies on general fund transfers to fund many of the state agency projects, unless there are projects in the program that have their own revenue, state-special, federal special, bond proceeds. As a result, the LRP budgets will generally be presented in a separate piece of legislation, typically in one of the "low-numbered" House bills.



The LRP budget is primarily appropriated from state special revenue funds. There is no general fund proposed for the LRP programs in the 2013 biennium. The figure to the right shows the funding of the LRP budget for the 2013 biennium. Over 54% of the proposed appropriations would be funded with state special revenue. Federal special appropriations account for 16% of the budget. Authorizations, 13.9% of total funding, are not appropriations and exist in the LRP budget (in LRBP) because legislative approval is required to expend donations (and other types of funds that do not require appropriation) on major building projects with costs in excess of $150,000. Notable in the 2013 biennium, capital project fund appropriations are an insignificant 2.3% of the total budget. This is in part due to corrections made in the LRBP capital project fund. More detail on the funding of LRP programs is found in the program sections of this report.

Major Legislative Action Issues

The issues related to the LRP budget focus mainly on the lack of information provided in the executive budget. The LRP dollars are spent on private sector contracts for various types of construction projects, the reductions may impact the state economy.

LFD ISSUE

Undeveloped Budget Proposals

By statute (Title 17, Chapter 7), the executive is required to submit a budget proposal to the Legislative Fiscal Analyst on November 15 (of the year prior to the start of the legislative session). According to 17-7-123, the proposal should include "...balanced financial plan for funds subject to appropriation". The executive recommendation of Nov. 15, 2010 for the several of the LRP budgets did not include information of the appropriations or a full picture of the transfers that would be recommended. Consequently, to determine the level of appropriation and the status of the state special revenue fund, the Legislative Fiscal Division (LFD) was required to extract information from the related bill drafts. In such cases, staff is faced with the challenge of preparing a budget analysis that is pegged either to the printed executive budget or the draft legislation, and trying to determine which is intended to be the executive budget proposal.

The executive budget revision of December 15, 2010 contained a number of changes related to the transfers of

funds from the LRP budgets. Among the changes were a reduction of the transfer of TSEP funds to the general fund (changed from $18.5 million to $17.6 million) and a new transfer of LRBP funds ($1.0 million from the LRBP capital projects fund). The LFD was not informed of the changes, but learned of them when the program bills were introduced to the public. The information was then confirmed in the executive budget revision.

The legislature may want to consider statutory revisions that will enhance the submittal of budgetary details by the executive. One option is to clarify the level of detail required to be submitted with the executive budget. Another possible solution would be to accelerate the budget submittal dates so legislative staff would have adequate time to request additional budget details if the information submitted is inadequate. When major revisions to the executive budget are submitted on December 15, it can be difficult for staff to ferret out details and have a complete analysis done prior to the convening of the legislature.

LFD ISSUE

Reduction of Funding

The executive budget proposes significant reductions to the various LRP programs and in some cases the transfer of funds from the statutory dedicated use to support (or enhance) the general fund. The legislature will be required to analyze the full spectrum of budget policies to make changes to the executive budget proposal. For example, if the legislature should choose to fund the TSEP local government grants, they will need to be prepared to find other sources of revenue (other program reductions or tax increases) to replace the funds that are proposed to be transferred to the general fund. Requiring these actions bears significant policy implications and will require a great deal of legislative time and effort.

LFD ISSUE

Reduction of LRP Budgets May Negatively Impact the Montana Economy

LRP projects help to bring money and jobs to the Montana economy. Most of the programs support the construction industry by pushing building dollars out into the state. With actual reductions of $71 million in LRP programs, the impact to the economy could be significant. Often the LRP budgets directly leverage federal and local funds for projects, expanding the full economic impact of the projects. For example, each dollar of TSEP directly leverages $4 of other infrastructure funding (federal grants, state grants, and loans). Additionally, "a one-time diversion of TSEP funds could result in the loss of up to 475 construction and engineering jobs and $92 million to Montana's economy over the next two years."[1] As such, the policy decision of not funding or reducing funding to these projects may have a significant impact on the state economy.

All state spending impacts the economy, but with consideration of the potential for matching dollars for LRP projects, the economic impact could be greater than, for example, reducing other state services. In an economy where unemployment is unusually high and spending is inhibited, the legislature will need to consider the executive proposals for LRP reductions.

[1] Great Falls Tribune, *Shift of Infrastructure Funds Raises Questions,* John Adams, December 2, 2010.

LONG-RANGE BUILDING PROGRAM

Program Description

In 1963, the legislature enacted the Long-Range Building Program (LRBP) to provide funding for construction, alteration, repair, and maintenance of state-owned buildings and grounds. The program, as established in Title 17, Chapter 7, part 2, MCA, was developed in order to present a single, comprehensive, and prioritized plan for allocating state resources for the purpose of capital construction and repair of state-owned facilities. The program is administered by the Architecture and Engineering Division (A&E) of the Department of Administration. Historically, the LRBP has been funded with a combination of cash accounts and bonding. The various types of cash accounts include state and federal special revenue funds, other funds (such as university and private funds), and LRBP capital project funds.

Program Budget Comparison

The following table summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

Program Comparison - Long-Range Building Program

Budget Item	Budget 2011 Biennium	Budget 2013 Biennium	Biennium Change	Biennium % Change
	Appropriated	Proposed		
Projects Cost	$208,800,468	$62,483,830	($146,316,638)	-70.07%
Total Costs	**$208,800,468**	**$62,483,830**	**($146,316,638)**	**-70.07%**
Capital Projects	$18,865,000	$2,420,000	($16,445,000)	-87.17%
State Special	57,056,400	28,593,330	(28,463,070)	-49.89%
Federal Special	55,150,500	16,885,500	(38,265,000)	-69.38%
Proprietary[1]	1,750,000	250,000	(1,500,000)	-85.71%
Authorization[1]	38,800,000	14,335,000	(24,465,000)	-63.05%
General Fund[2]	37,178,568	0	(37,178,568)	-100.00%
Bond Issue/Loans	0	0	0	n/a
Total Funds	**$208,800,468**	**$62,483,830**	**($146,316,638)**	**-70.07%**
Project Reduction Proposal				
Captial Projects Reductions	($10,685,622)			
Captial Projects Fund Reduction	($1,000,000)			
General Fund	11,685,622			

[1] Does not Require Appropriation but Requires Approval of Legislature
[2] Transfers to Capital Project Funds in 2011 biennium

As seen in the figure above, the executive proposes a total LRBP budget of $62.5 million for the 2013 biennium. This is $146.3 million, or 70.1%, less than the LRBP budget in the 2011 biennium. Included in the figure above is the project reduction proposed by the executive where the executive recommends the elimination/reduction of $10.7 million of LRBP projects and an equivalent transfer to the general fund. The December 15 executive budget revision also proposes a transfer of $1.0 million from the LRBP capital projects fund to the general fund.

Program Highlights

Long-Range Building Program (DOA) Major Budget Highlights
♦ The executive budget is significantly reduced, 70.1%, from the budget of the 2011 biennium ♦ No general fund enhancement in the 2013 biennium • The LRBP has received general fund transfers for the past 3 biennia • The LRBP was enhanced in the 2011 biennium with $37.2 million of general fund transfers ♦ The executive proposes to eliminate $10.7 million of LRBP projects authorized by previous legislatures ♦ Projects funded with LRBP capital project funds are $2.4 million, or 3.9% of the total budget • Most of the recommended projects are life safety and serious deferred maintenance concern • 58.1%, $1.4 million, of the LRBP funds are recommended for two projects in the Montana university system ♦ 43.3% of the total project funding is recommended for FWP project/program funding
Major LFD Issues
♦ The executive budget proposal recommends the reduction or elimination of seven projects previously authorized by the legislature • Only the legislature can reduce/eliminate projects • Transfers from the LRBP capital projects fund are a component of the general fund balance sheet • If the Sixty-second Legislature does not agree with the project reductions/eliminations, the Legislature will be required to find equivalent reductions elsewhere to retain the estimated general fund balance

Program Narrative

In the LRBP budget for the 2013 biennium, the executive recommends a cash only program; no general obligation bonds are recommended for new construction or major deferred maintenance projects. The executive budget also recommends the elimination or reduction of the appropriations of seven projects authorized by previous legislatures. The funds that would be "freed-up" through the reductions are proposed to be transferred to the general fund. The LRBP appropriations, as well as the recommended project reductions/eliminations and fund transfers will be presented in HB 5. With available program cash expected to be significantly limited, most of the LRBP capital project fund budget is dedicated to life safety concerns, security, and hazard mitigation.

With the limited funding in the 2013 biennium, most of the building program recommendations are for Fish, Wildlife, and Parks (FWP) projects. Many of the recommended appropriations for FWP projects result from statutory license fee earmarks that are dedicated to specific hunting and habitat objectives. Some FWP appropriations, like those for hatcheries, administrative buildings, and state parks maintenance projects, provide for the maintenance of existing infrastructures. One project of note is the Milltown Dam Park Improvements. This project will provide funds for the construction of facilities at the newly acquired Milltown State Park. The project, with appropriations of $1.7 million, will be funded with Natural Resource Development (NRD) funds and

federal funds. Operations and maintenance at the new park will be paid by the NRD funds for the first five years, but the state will be required to assume operations and maintenance costs afterwards. Another FWP project of interest is the Home to Hunt Access. This appropriation of $600,000 is funded from a new statutory license fee earmarked for securing access across private lands to public lands. The funding will be used to secure access from willing sellers through purchases of right-of-way easements or fee title acquisitions.

Several project reductions are proposed in the executive budget. The reductions, initially proposed in mid FY 2010, are shown in the figure below along with the session and bill where the appropriations were made. Also included in the table are the amounts of the original appropriations, the amounts of the LRBP capital project appropriations, and the proposed reductions. A brief description of the project status follows the table.

Governor Austerity Measures (February 2010) - LRBP Project Reduction Proposal

Project	Session	Bill No.	Original Appropriation	LRBP Appropriation	Proposed LRBP Reduction
Receiving Hospital Renovation, MT State Hospital	5/2007SS	HB 4	$5,800,000	$5,800,000	$4,500,000
Expansion of Food Services, MSP	5/2007SS	HB 4	1,930,000	1,637,000	1,191,402
New Building for Youth Transition Center, Great Falls	2009	HB 5	1,310,000	1,310,000	1,250,000
Office of Public Assistance, Wolf Point	2009	HB 5	2,250,000	2,250,000	2,234,220
Statewide Facilities Planning	2009	HB 5	400,000	400,000	400,000
Infrastructure Repairs, State Capitol, Helena	2009	HB 5	800,000	500,000	500,000
Auto Tech Center Design, MSU-Northern	5/2007SS	HB 4	800,000	800,000	610,000
Total LRBP Project Reduction Proposals			$13,290,000	$12,697,000	$10,685,622

LFD COMMENT

A major component of the LRBP budget is what is termed as the Governor's "austerity measures". In FY 2010, the Governor was faced with a significant decline in state revenue, which triggered the actions required in 17-7-140, MCA. The provisions of this statute require that the executive reduce state spending. In addition to reducing spending, the Governor recommended the reduction or elimination of certain LRBP projects. However, to realize the savings associated with the projects, the legislature must agree with the project reductions, strike or reduce the project appropriation from the original piece of legislation, and transfer the funds from the LRBP capital projects fund to the general fund. The transfers from the LRBP capital projects fund are included in the executive budget general fund balance sheet.

Receiving Hospital Renovation, MT State Hospital - This project, with total appropriations of $5.8 million, consisted of the receiving hospital at the Montana State Hospital and upgrades at the Xanthopoulos building. The proposed reduction of $4.5 million only applies to the receiving hospital component of the project. The Xanthopoulos building upgrades are in construction and will be completed with $1.3 million of the appropriation.

Expansion of Food Services at Montana State Prison – With legislative agreement, the reduction of this project would provide funds to enable the transfer of $1.2 million to the general fund. The project was approved to expand the food service factory at the state prison and increase inventory and product storage capacity. The renovation would have allowed the prison to switch to a single serving system with food chillers. The reduction does not include eliminating the planned use of $290,000 of Department of Correction proprietary funds, which in combination with the remaining $445,598 of capital project appropriation will fund work in the freezer and production area.

New Building for Youth Transition Center, Great Falls - This appropriation of $1.3 million of LRBP funds was planned for the construction of a new 19 bed youth transition center. The current center occupies leased space. To date, $60,000 has been expended on preliminary planning work, and while the state entered into an architectural contract, continuing contracted work has been stopped. If the legislature agrees to the project reduction, $1.3 million of LRBP capital project funds could be freed up for return to the general fund.

Office of Public Assistance, Wolf Point - This project, with a total appropriation of $2.3 million, was approved to construct a new 5,000-5,600 gross square foot office of public assistance. The project would replace currently leased space. At this time, $15,780 has been expended on preliminary planning work and the state has entered into an architectural contract. The continuing contracted work has been stopped. With legislative agreement for the project reduction, $2.2 million of LRBP capital project funds could be transferred to the general fund.

Statewide Facilities Planning – This appropriation of $400,000 of LRBP capital project funds was intended to provide planning for MT Agricultural Experiment stations, MT Veterans' Homes, and Department of Corrections master plan efforts. At this time, the planning has been stopped, and with legislative approval the appropriation could be eliminated and the funds transferred to the general fund.

Infrastructure Repairs, State Capitol, Helena - This project, appropriated for $800,000 in total funds, was planned to continue capitol major maintenance and repairs. Major repairs would include repairs to the copper dome and replacement and restoration of skylights. This project was also funded with an appropriation of $300,000 of General Service Division proprietary funds, which are not recommended for reduction. The reduction of this appropriation could provide $500,000 of capital project funds to transfer to the general fund.

LFD COMMENT

The primary purpose of the $500,000 LRBP capital project fund appropriation for Infrastructure Repairs was to perform vital repairs to the copper dome of the Capitol Building. Over time, wind and weather have loosened the copper panels of the dome, a significant problem for several reasons. First, if any of the panels were to break loose it could cause harm to people or possessions on the ground. Second, the building interior has no other protection from the elements if panels were to disengage and be lost or destroyed. For the time being, stop-gap measures have been taken to keep the panels in place, but the legislature should be aware that these measures do not completely mitigate the problem, and the intended repairs to the dome will be required in the future.

Auto Tech Center Design, MSU-Northern - This project appropriation of $800,000 was provided to design the consolidated of the auto diagnostics, metal arts, and auto mechanics programs. The project was intended to result in designs for a new facility on the Northern campus. At this time, the project will be taken through initial project planning. With $190,000 expended, enough planning has been completed to bring a basic building plan to a future legislature. If the legislature agrees with the reduction, $610,000 of the LRBP capital project funds could be transferred to the general fund.

Project List

The figure below shows the projects recommended by the executive, listed by agency. The listed projects will be requested in the LRBP cash program bill, HB 5, and are numbered to indicate priority.

Long-Range Building Program - Cash Projects Executive Recommendation - 2013 Biennium						
		Executive Recommendations - Cash Projects by Fund Type				
Rank	Agency / Project	LRBP Capital Project	State Special	Fed Special	Proprietary	Authorization	Total
Department of Administration							
3	Install Fire Protection Systems - Montana Law Enforcement Academy	$600,000					$600,000
5	Elevator & ADA Modifications, Capitol Complex		$800,000				800,000
8	Mechanical & Energy Projects, Capitol Complex		1,592,500				1,592,500
	Subtotal Department of Administration	$600,000	$2,392,500	$0	$0	$0	$2,992,500
Department of Corrections							
6	Repair Building 15 Roof - Riverside Youth Correctional Facility, Boulder	215,000					215,000
	Subtotal Department of Corrections	$215,000	$0	$0	$0	$0	$215,000
Department of Military Affairs							
7	Replace Armory Roofs, Statewide			930,000			930,000
12	Federal Spending Authority			2,500,000			2,500,000
	Subtotal Department of Military Affairs	$0	$0	$3,430,000	$0	$0	$3,430,000
Department of Fish, Wildlife, and Parks							
18	Parks Program		2,351,000	1,700,000			4,051,000
19	Habitat Montana		8,668,000	200,000			8,868,000
20	Future Fisheries		1,274,000				1,274,000
21	Fishing Access Site Protection		1,474,000	400,000			1,874,000
22	Upland Game Bird Program		1,181,800				1,181,800
23	Hatchery Maintenance		575,000	575,000			1,150,000
24	Admin Facilities Repair & Maint		1,570,500				1,570,500
25	Grant Programs/Federal Projects		258,000	2,000,000			2,258,000
26	Milltown Dam Park Improvements		927,530	730,500			1,658,030
27	Wildlife Habitat Maintenance		970,000				970,000
28	Dam Maintenance		50,000				50,000
29	Smith River Corridor Enhancements		150,000				150,000
30	Waterfowl Program		509,000				509,000
31	Community Fishing Ponds		50,000				50,000
32	Fishing Access Site Acquisition		279,000				279,000
33	Bighorn Sheep Habitat		538,000				538,000
34	Home to Hunt Access		600,000				600,000
	Subtotal Department of Fish, Wildlife, and Parks	$0	$21,425,830	$5,605,500	$0	$0	$27,031,330
Department of Natural Resource and Conservation							
16	Aircraft Hangar, Kalispell				250,000		250,000
	Subtotal Department of Natural Resources and Conservation	$0	$0	$0	$250,000	$0	$250,000
Department of Public Health and Human Services							
1	Replace Security Key System - MDC, Boulder	200,000					200,000
15	Preliminary Design - SW Montana Veterans' Home, Butte		475,000				475,000
	Subtotal Department of Public Health and Human Services	$200,000	$475,000	$0	$0	$0	$675,000
Department of Transportation							
9	Statewide Maintenance, Repair & Small Projects		2,142,000				2,142,000
17	Equipment Storage Buildings, Statewide		2,158,000				2,158,000
	Subtotal Department of Transportation	$0	$4,300,000	$0	$0	$0	$4,300,000
Montana University System							
2	Install Fire Protection Systems - Montana University System	530,000				260,000	790,000
4	Hazard Mitigation Projects - Montana University System	875,000		2,850,000		1,075,000	4,800,000
13	General Spending Authority, UM - All Campuses					6,000,000	6,000,000
14	General Spending Authority, MSU - All Campuses					6,000,000	6,000,000
	Subtotal Montana University System	$1,405,000	$0	$2,850,000	$0	$13,335,000	$17,590,000
Statewide Projects							
10	Spending Authority, Utility Energy Conservation Funds					1,000,000	1,000,000
11	Authority to Spend Federal Grant Funds			5,000,000			5,000,000
	Subtotal Statewide Projects	$0	$0	$5,000,000	$0	$1,000,000	$6,000,000
	Total Cash Program:	$2,420,000	$28,593,330	$16,885,500	$250,000	$14,335,000	$62,483,830

Funding

As shown in the fund balance table to the right, the LRBP fund will start the 2013 biennium with a negative fund balance of $7.0 million (see LFD Comment below). Fund revenues include a 2.6% distribution of cigarette tax revenue, $3.5 million in the biennium, and 12.0% distribution of coal severance tax revenue, $12.7 million in the biennium. Other income includes interest earnings on LRBP fund balances and supervisory fees paid to the A&E. The supervisory fees shown in this analysis differ from the fund balance presented in the executive budget because after further review the estimated fees were determined to be higher than could be expected considering the reduced project list. Total revenue in the 2013 biennium is expected to be $17.3 million.

The table includes the reduction/elimination of $10.7 million of LRBP capital projects and a transfer of $10.7 million from the LRBP fund to the general fund. As previously mentioned, this action will require legislative approval. There is a zero impact to the LRBP fund when the project eliminations and transfer of funds are taken together. The executive budget suggests that the transfer will occur in FY 2011.

Long-Range Building Program Fund (05007) Fund Balance Projection 2013 Biennium		
Estimated Beginning Fund Balance-(7/1/2011)		($6,993,848)
Revenue Projections[1]		
Cigarette Tax	$3,505,000	
Coal Severance Tax	12,669,000	
Interest Earnings	808,900	
Supervisory Fees	350,000	
2013 Biennium Revenues		17,332,900
Executive Proposal-Project Elimination and Transfer[5]		
Project Eliminations, February 2010	10,685,622	
Transfer of LRBP Funds to General Fund	(10,685,622)	
		0
Expenditures		
Operating Costs-A & E Division[5]	(3,943,622)	
Debt Service-2003G[2]	(2,054,381)	
Debt Service-2005A[3]	(2,194,019)	
Funding Switch[4]	1,330,000	
Total Expenditures		(6,862,022)
Balance Available for Capital Projects		3,477,030
Executive Proposals LRBP Cash Account[5]		(2,420,000)
Balance		$1,057,030
12/15-Executive Transfer Proposal		(1,000,000)
12/15-Revised Ending Cash Balance - (6/30/2013)		$57,030

[1]Based on RTIC revenue estimates
[2]Refinance of 1996D issue
[3]Refinance potions of 1997B and 1999C issues
[4]Debt Service Funding Switch, 2001 legislative session
[5]Based on executive budget proposal

The normal LRBP expenditures from the fund, amounting to $6.9 million, include the administrative costs of the A&E Division and the debt service on two bond issues. Also seen in the expenditure section of the table is a debt service funding switch of $665,000 per year from the LRBP fund to the general fund, which the 2001 Legislature authorized in HB 14 to reduce LRBP debt service costs related to the 1996D bond issue (refinanced with 2003G), the 1997B bond issue, and the 1999C (refinanced with 2005A) bond issues.

The fund will have an available balance of $3.5 million for capital projects in the 2013 biennium. As shown, approximately $2.4 million is recommended in the executive budget for cash program projects, leaving an estimated balance of $1.1 million at the end of the 2013 biennium. The estimated ending fund balance, as prepared by the LFD, is slightly higher than that shown in Section F of the executive budget, primarily because of higher coal severance tax revenues estimates, as adopted by the Revenue and Transportation Interim Committee (RTIC).

Note: The FY 2013 ending fund balance of the LRBP cash fund was expected to be $1.1 million (now shown in the above figure as "balance"). However, the executive is expected to revise the original budget on December 15 and propose to transfer $1.0 million of LRBP funds to the general fund. As shown in the figure above, this action will reduce the LRBP ending fund balance to $57,030 by the end of the 2013 biennium.

LFD COMMENT

FY 2013 Beginning Fund Balance

The beginning fund balance for the LRBP capital projects fund is shown to be significantly negative at the end of the 2011 biennium. Approximately 44% of the shortfall can be attributed to reduced interest earnings on the balance in the LRBP capital project fund and lower than anticipated tax distributions. The remainder of the negative balance is the result of incorrect calculations of outstanding obligations in past biennia. The Long-Range Planning subcommittee may wish to request more information on the cause of the negative beginning fund balance from the staff of A&E division.

LFD ISSUE

SBECP Energy Savings Transfers to the LRBP

In past years, the State Building Energy Conservation Program (SBECP), administered by the Department of Environmental Quality (DEQ), has made transfers of "energy savings" to the LRBP, but as seen in the fund balance table above, there is no transfer included in the LRBP revenue stream for the 2013 biennium. In November 2009, the Legislative Audit Division conducted a performance audit on the SBECP. The audit findings suggested that in recent years the program had failed to comply with the statutory requirement of transferring the energy cost savings in excess of projected debt service to the LRBP from the collection of "savings" paid to DEQ by the agencies who had participated in energy conservation construction projects. The audit noted two examples where transfers were not in compliance with the statutory requirement,

"...the SBECP collected $56,500 after bond retirement in fiscal year 2005; however, we found the SBECP transferred approximately $36,000 to the LRBP that year. In addition, while the SBECP collected over $400,000 after bond retirement from fiscal years 2007 to 2009, there have not been any corresponding transfers to the LRBP during that period (page 10)."

DEQ explains that there were no funds available to sweep to the LRBP because they were needed to pay bond costs for larger bonds in 2005 and 2007. Several factors including rising fuel costs, agency interest in the program, and overall economics – significantly increased the demand for the services offered by the SBECP and bonds were sold for higher amounts in 2005 and 2007. There's a lag time between when debt service begins and when the savings from the projects deliver the revenue to cover that debt service. When the program operates at a stable level, it can cover that lag time with existing savings and still have money available to sweep to LRBP. However, the significant ramp up required the use of additional savings, which normally would have been swept to LRBP, to help cover this lag time on the larger bonds.

For this reason, DEQ acknowledges the "time gap" in making transfers of energy savings to the LRBP, and administrative staff at DEQ, state, "We're now starting to reach a point where some of the projects from the larger bonds are delivering savings, and it appears we'll be in a position to resume the sweep. While the more cautious approach would be to wait until fiscal year end, we do think we can make an interim sweep, and we had targeted doing so before the end of the calendar year. At this point we anticipate we'll be able to sweep up to $200,000 to LRBP with minimal risk of not having adequate funds to cover debt service."

Since FY 2008, the SBECP has operated under different conditions. The SBECP projects have not been funded with bond proceeds and the requirement for transfers of energy savings in excess of estimated debt service no longer apply.

In the Long-Range Planning subcommittee hearings for the LRBP, the subcommittee members may wish to check with the program representatives to ensure that the transfer mentioned above has taken place and determine if future transfers or "sweeps" will occur as statutorily required.

STATE-BUILDING ENERGY CONSERVATION PROGRAM

Program Description

The State Building Energy Conservation Program (SBECP), administered by the Department of Environmental Quality (DEQ), was established by the 1989 Legislature to reduce operating costs of state facilities by identifying and funding cost-effective energy efficiency improvement projects. Statutory authority is found in Title 90, Chapter 4, part 6, MCA. Energy efficiency improvements include projects such as:

- Replacing old, inefficient boilers
- Upgrading inefficient lighting
- Increasing ventilation system efficiency
- Insulating buildings
- Providing more effective temperature controls
- Upgrading water conservation systems

SBECP projects are designed so that energy savings exceed costs. The estimated savings of energy costs are used to reimburse the project costs and finance operational costs. In the past, projects were funded through a bonded program, and reimbursements in excess of the projected debt service were statutorily required to be transferred to the Long-Range Building Program (LRBP)[1]. Beginning in FY 2008, bond proceeds were no longer used to fund the program. The 2007 Legislature funded SBECP projects with an appropriation of general fund and the 2009 Legislature funded projects with appropriations of general fund and federal special funds. With those changes, the program was modified to treat the funds in a revolving fashion, and project reimbursements, plus the interest on the outstanding debt related to the project, are expected to support future projects and program administrative costs. Program recommendations encourage conservation measures which have a service life of at least 15 years. However, energy savings are expected to continue throughout the life of the project.

Projects come to the SBECP either directly because of the energy saving benefits or in conjunction with projects planned under the Long Range Building Program. DEQ offers state agencies assistance in evaluating energy use and identifying energy conservation projects. Program engineers evaluate all projects proposed for the LRBP to assess the energy savings potential on proposed remodeling projects. Projects with the potential for energy savings are funded through the SBECP, and are often jointly funded with the LRBP deferred maintenance funds.

Program Budget Comparison

The following table summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

Program Comparison - State Building Energy Conservation Program

Budget Item	Budget 2011 Biennium	Budget 2013 Biennium	Biennium Change	Biennium % Change
Number of Projects[1]	10	0	(10)	-100.00%
	Appropriated	Proposed		
Projects Costs	$23,238,000	$0	($23,238,000)	-100.00%
Total Costs	**$23,238,000**	**$0**	**($23,238,000)**	-100.00%
Federal Special (ARRA)	$21,738,000	$0	($21,738,000)	-100.00%
General Fund[2]	1,500,000	0	(1,500,000)	-100.00%
Total Funds	**$23,238,000**	**$0**	**($23,238,000)**	-100.00%

[1] The ten major projects are comprised of numerous smaller projects
[2] Transfers to SBECP Capital Project Funds

[1] See LFD Issue on page F-7 of this report.

As seen in the figure above, the executive proposes no new appropriations in the SBECP for the 2013 biennium. This is $23.2 million, or 100%, less than the SBECP budget in the 2011 biennium.

Program Highlights

State Building Energy Conservation Program Major Budget Highlights
◆ No new appropriations for the SBECP ◆ 100% total funds reduction for 2013 biennium ◆ Executive budget anticipates 2011 biennium appropriations will be adequate to keep the program busy through 2013 biennium
Major LFD Issues
◆ Transfers to the LRBP, as required in statute, are not expected to be made in the 2013 biennium (see issue on page F-7)

Program Narrative

No new appropriations are included in the executive budget for the State Building Energy Conservation Program (SBECP) in the 2013 biennium. The executive budget assumes that the appropriations of last biennium, primarily federal funds provided to DEQ through the American Recovery and Reinvestment Act of 2009 (ARRA), will provide sufficient work for the program in the 2013 biennium. As noted in the executive budget, 9 projects have been completed, 43 projects are in construction, 17 projects are in design, and 18 projects are in planning (all as component pieces of the 10 primary projects mentioned in the program comparison table). According to the staff at DEQ, the U.S. Department of Energy (DOE) required that the federal funds (ARRA federal special funds as appropriated for the 2011 biennium SBECP) be fully obligated by September 30, 2010 and expended by April 2012.

The DEQ believe that there will be $3 million of unused appropriation authority for energy conservation projects in the 2013 biennium. Because the original appropriations were contained in the LRBP, the appropriation authority is ongoing until the point of project completion. The projects that will be undertaken in the SBECP in the 2013 biennium are consistent with the scope and definition of the projects as discussed with the Sixty-first Legislature for the 2011 biennium.

Funding

Funding for the SBECP was modified by the Sixtieth and the Sixty-first Legislatures. The result is that the program has been fashioned to operate as a "revolving project" program. As previously determined (and shown in the 2011 Fiscal Report, Section F), once agencies begin reimbursing the program for the energy conservation projects appropriated by the 2011 Legislature, total reimbursements should generate about $1.9 million per year for new projects and administrative costs. However, the full list of projects has not been completed and the current reimbursements are not anticipated to be sufficient to support additional projects in the 2013 biennium.

LONG-RANGE INFORMATION TECHNOLOGY PROGRAM

Program Description

The Long-Range Information Technology Program (LRITP) is a program developed to fund large information technology (IT) projects. The LRITP consolidates large IT investments in one appropriation bill and defines major IT enterprises as capital projects. All projects included in the LRITP bill are overseen by the state chief information officer (CIO) within the Department of Administration (DOA).

The consolidation of major IT projects is intended to achieve several goals. First, IT projects are complex and require significant and time intensive planning, design, and management efforts, and by designating the projects as "capital projects", the appropriation continues until completion of the project, as statutorily authorized in 2-17-560, MCA. Second, centralized project oversight is expected to enhance project management and foster stronger partnerships between agencies and the state CIO. Finally, having all the major projects in one piece of legislation is anticipated to provide the legislature with a broad vision of the state IT program and related investments.

Program Budget Comparison

The following table summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

Program Comparison - Long-Range Information Technology Program

Budget Item	Budget 2011 Biennium	Budget 2013 Biennium	Biennium Change	Biennium % Change
	Appropriated	Proposed		
Projects Cost	$99,251,745	$0	($99,251,745)	-100.00%
Total Costs	**$99,251,745**	**$0**	**($99,251,745)**	**-100.00%**
State Special	$6,385,567	$0	($6,385,567)	-100.00%
Federal Special	65,000,000	0	(65,000,000)	-100.00%
General Fund[1]	12,866,178	0	(12,866,178)	-100.00%
Bond Issue/Loans	15,000,000	0	(15,000,000)	-100.00%
Total Funds	**$99,251,745**	**$0**	**($99,251,745)**	**-100.00%**
Project Reduction Proposal				
Captial Projects Fund	($10,737,033)			
General Fund	10,737,033			
Total Project Reduction Impact	**$0**			

[1] Includes $8.4 million of transfers to the LRITP capital project fund in 2011 biennium

As seen in the figure above, the executive proposes no new appropriations in the LRITP for the 2013 biennium. This is $99.3 million, or 100%, less than the LRITP budget in the 2011 biennium. Included in the figure above is the project reduction proposed by the executive where the executive recommends the elimination/reduction of $10.7 million of LRITP projects and an equivalent transfer to the general fund. The proposal has a net $0 impact on the funding of the LRITP.

Program Highlights

Long-Range Information Technology Program
Major Budget Highlights

- The executive budget proposal is a reduction of 100%, from the budget of the 2011 biennium
- No general fund enhancement in the 2013 biennium

- The LRITP has received general fund transfers for the past 2 biennia
- The LRITP was enhanced in the 2011 biennium with $12.9 million of general fund appropriations and transfers
- The executive proposes to eliminate $10.3 million of LRITP projects authorized by previous legislatures

Major LFD Issues

- The executive budget proposal recommends the reduction of three projects authorized by previous legislatures
  - Only the legislature can reduce/eliminate projects
  - Transfers from the LRITP capital projects fund are a component of the general fund balance sheet
  - If the Sixty-second Legislature does not agree with the project reductions, the Legislature will be required to find equivalent reductions elsewhere to retain the estimated general fund balance
- Significant loss of previously anticipated federal fund
- DPHHS will remain out of compliance with the federal IT requirements with their current Child and Adult Protective Services system

Program Narrative

There are no new project appropriations included in the executive budget proposal for the LRITP in the 2013 biennium. The executive budget does recommend the reduction of the appropriations of three projects authorized by previous legislatures. If the legislature agrees with the proposal, the funds that would be "freed-up" through the reductions would to be transferred to the general fund. The LRITP project reductions and fund transfers will be presented in HB 10.

Several project reductions are proposed in the executive budget. The reductions are shown in the figure below along with the session and bill that the project was included in, the amount of the original appropriation, the amount of the LRITP capital project appropriation, and the proposed project reduction. A brief description of the project status follows the table.

Governor Austerity Measures (February 2010) - LRITP Project Reduction Proposal

Project	Session	Bill No.	Original Appropriation	LRITP Appropriation	Proposed LRITP Reduction
Child and Adult Protective Services (CAPS) System	5/2007SS	HB 4	$27,150,000	$15,204,000	$10,273,760
Judicial Branch Information Technology Project	5/2007SS	HB 4	2,909,470	2,909,470	340,000
Efficiency Through Imaging, DOR	2009	HB 10	3,366,178	3,366,178	123,273
Total LRITP Reduction Proposals			$33,425,648	$21,479,648	$10,737,033

LFD COMMENT

A major component of the LRITP budget is what is termed as the Governor's "austerity measures". In FY 2010, the Governor was faced with a significant decline in state revenue, which triggered the actions required in 17-7-140, MCA. The provisions of this statute require that the executive reduce state spending. In addition to reducing spending, the Governor recommended the reduction or elimination of certain LRITP projects. However, to realize the savings associated with the projects the legislature must agree with the project reductions, reduce the project appropriation from the original piece of legislation, and transfer the funds from the LRITP capital projects fund to the general fund. The transfers from the LRITP capital projects fund are included in the executive budget general fund balance sheet. Consequently, if the legislature does not agree with the project reductions and transfers, the general fund balance will be reduced.

MACWIS (Child and Adult Protective Services, CAPS) Project - This project, with total appropriations of $27.2 million, was intended to replace the current CAPS system with a new system, now referred to as the Montana Automated Child Welfare Information System (MACWIS). The project was intended to better meet the needs of the users and to bring the system into compliance with mandated reporting requirements. The project included an appropriation of $15.2 million of LRITP capital project funds and $12.0 million of federal special funds. With legislative agreement, this proposal would reduce the LRITP appropriation by $10.3 million and transfer the related monies to the general fund. This appropriation reduction will create a loss of $8.1 million in matching federal funds. From the original appropriation, approximately $1.5 million has been expended on project design, $2.9 million has been transferred to the MMIS project, and $0.5 million has been transferred to the TANF/SNAP project. The project design is complete and is expected to be of value in the future when the department will again request appropriations for the project.

LFD COMMENT In testimony before the 2007 Legislature, DPHHS discussed the urgent need CAPS (MACWIS) project and discussed how the current system was out of compliance with federal information technology standards. The agency now indicates that the federal partners will permit Montana to continue to claim CAPS operational funding at the SACWIS (State Automated Child Welfare Information System) federal participation rate and are working with DPHHS to address federal compliance issues. DPHHS representatives have also stated that they will request appropriation for the new MACWIS project again at some point in the future. The members of the Long-Range Planning Subcommittee may wish to further question the representatives of DPHHS to determine if the once stated urgency for the project still exists and if the potential consequences to the program, for the continued use of a system that is out of compliance with the federal SACWIS standards, could result in unexpected costs to the agency in the near-term (reduction of the federal participation rate for CAPS operations).

Judicial Branch Information Technology Project – The Judicial Branch IT project, originally appropriated at $2.9 million from the LRITP capital projects fund, was planned to provide funding for the continuation of the Judicial Branch court modernization to meet the needs of the branch and conforming to current IT standards. The executive proposal recommends reducing the original appropriation by $340,000. If the legislature agrees, the funds would be transferred from the LRITP capital projects fund to the general fund. To date, completed courtroom technology projects include upgrading 22 court reporting and recording systems, installation of 9 new court video sites, expansion of court video services in 3 sites, upgrade of audio systems in 16 courtrooms, and wiring 16 courtrooms for data connectivity. With the proposed reduction, the Branch will be unable to install or upgrade electronic evidence display systems as originally planned. The Branch may request funding to complete the project in the future.

Efficiency through Imaging, Department of Revenue (DOR) – This project, with total appropriations of $3.4 million of LRITP capital project funds, was intended to make the handling of paper returns and other documents more efficient and improve the DOR business processes in the areas of compliance, tax processing, and information technology. The reduction proposal, with legislative agreement, would reduce the appropriation by $123,273. This reduction is projected to have no adverse impacts to the project, as the funds were budgeted to cover potential project contingencies. With the project already contracted and moving forward, the budgetary risks and the need for contingency funds is reduced.

Funding

Projects in the LRITP are funded through a number of sources including LRITP capital project funds, state special funds, federal special funds, and bond issue proceeds. However unlike other LRP programs, the LRITP does not have a dedicated source of funding (tax revenue distributions or interest earnings). Since the inception of the program in 2008, the legislature has provided transfers of general fund one-time only dollars in support of the program and projects. For the 2013 biennium, the executive budget does not recommend any transfers of general fund. Additionally, the budget proposal does not recommend any projects appropriated from state special funds, federal special funds, or bond issue proceeds.

TREASURE STATE ENDOWMENT PROGRAM

Program Description

The Treasure State Endowment Program (TSEP), administered by the Department of Commerce (DOC), is a state infrastructure finance program approved by Montana voters with the passage of Legislative Referendum 110 in June 1992. Grant funding for the program is derived from the interest earnings of the Treasure State Endowment trust. According to 90-6-702, MCA, the purpose of TSEP is to assist local governments in funding infrastructure projects that will:

- Create jobs for Montana residents
- Promote economic growth in Montana by helping to finance the necessary infrastructure
- Encourage local public facility improvements
- Create a partnership between the state and local governments to make necessary public projects affordable
- Support long-term, stable economic growth in Montana
- Protect future generations from undue fiscal burdens caused by financing necessary public works
- Coordinate and improve infrastructure financing by federal, state, local government, and private sources
- Enhance the quality of life and protect the health, safety, and welfare of Montana citizens

Infrastructure projects include drinking water systems, wastewater treatment facilities, sanitary sewer or storm sewer systems, solid waste disposal and separation systems, and bridges. The maximum grant award is $750,000.

Eligible applicants include cities, towns, counties, tribal governments, consolidated local governments, county or multi-county water, sewer or solid waste districts, and other authorities as defined in 75-6-304, MCA. TSEP applications are submitted to the DOC on a biennial basis where they are evaluated according to seven statutory priorities. The seven statutory priorities focus on projects that:

- Solve urgent and serious public health or safety problems or that enable local governments to meet state or federal health or safety standards
- Reflect greater need for financial assistance than other projects
- Incorporate appropriate, cost-effective technical design and provide thorough, long-term solutions to community public facility needs
- Reflect substantial past efforts to ensure sound, effective, long-term planning and management of public facilities and that attempt to resolve the infrastructure problem with local resources
- Enable local governments to obtain funds from sources other than TSEP
- Provide long-term, full-time job opportunities for Montanans, provide public facilities necessary for the expansion of a business that has a high potential for financial success, or maintain the tax base or encourage expansion of the tax base
- Are high local priorities and have strong community support

Program Budget Comparison

The following figure summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

Program Comparison - Treasure State Endowment Program				
Budget Item	Budget 2011 Biennium	Budget 2013 Biennium	Biennium Change	Biennium % Change
Trust Balance (End of Biennium)	$200,416,137	$225,744,137	$25,328,000	12.64%
Trust Earnings	17,865,751	19,682,000	1,816,249	10.17%
Number of Grants (infrastructure)	66	0	(66)	-100.00%
	Appropriated	Proposed		
Grants Cost	$33,854,171	$1,000,000	($32,854,171)	-97.05%
Total Costs	**$33,854,171**	**$1,000,000**	**($32,854,171)**	**-97.05%**
State Special	$18,800,000	$1,000,000	($17,800,000)	-94.68%
General Fund[1]	8,542,171	0	($8,542,171)	-100.00%
Bond Issue/Loans	6,512,000	0	($6,512,000)	-100.00%
Total Funds	**$33,854,171**	**$1,000,000**	**($32,854,171)**	**-97.05%**
Transfer Proposal				
State Special		($17,614,270)		
General Fund		17,614,270		

[1] Transfer to state special revenue fund and estimated for use in the 2011 biennium

As seen in the figure above, the executive proposes TSEP grant funding of $1.0 million in the 2013 biennium. This level of appropriation will provide funds for emergency grants and preliminary engineering grants. This is $32.8 million, or 97.1%, less than the TSEP budget in the 2011 biennium. Included in the figure above is the proposal to transfer $17.6 million from the TSEP state special fund to the general fund.

Program Highlights

Treasure State Endowment Program
Major Budget Highlights

- $17.6 million transfer of TSEP funds to the general fund in the 2013 biennium
- The executive budget proposes extending the coal severance tax distributions to the TSEP trust for an additional five years until 2021
- Program funding is reduced 97% from the 2011 biennium, projects are reduced by 100%
- The recommendation includes funding for emergency and preliminary engineering grants

Major LFD Issues

- Elimination of the TSEP grants in the 2013 biennium will negatively impact local government infrastructure projects
- Elimination of TSEP grants in the 2013 biennium may have a significant impact on the Montana economy (see issue on page F-5)
- The proposal does not consider the requirement that the program borrow funds to fully fund grants authorized by the 61st Legislature
  - HB 11 from the 2009 Legislative Session provided an appropriation for up to $6.2 million in borrowed funds for grant requests
  - The loan repayment will further reduce the funds available for funding other priorities

- The proposed expenditures and transfers in the executive budget proposal exceed the anticipated revenues
- If the Sixty-second Legislature does not agree with the transfer of TSEP funds to the general fund, the Legislature will be required to find equivalent reductions elsewhere to retain the estimated general fund balance

Program Narrative

The executive budget proposal for the 2013 biennium will be presented in HB 11. The proposal includes total appropriations of $1.0 million for TSEP, $100,000 for emergency grants and $900,000 for preliminary engineering grants. The proposal also includes a transfer of $17.6 million of TSEP interest earnings to the general fund.

While the executive recommendation does not include an appropriation for local government grants, the TSEP had initiated plans to have a grant program in the 2013 biennium. The local government grant requests were accepted and the ranking process was completed at the agency level. The prioritized TSEP list is found in the Section F Appendix on page F-47 of this report.

LFD ISSUE

Transfer of TSEP Funds Will Negatively Impact Local Governments

Local government infrastructure (water/wastewater) projects require substantial time and money to bring to the application process of the TSEP. Additionally, those local governments whose systems are out of compliance with drinking and wastewater standards will need to find other sources of funding to bring their systems into compliance.

The local governments who have applied for TSEP funds have already expended funds for the engineering reports used in the TSEP prioritization process. In addition, public meetings have been held for discussion of the proposed project and financial packages have been compiled. In short, local governments have invested significant amounts of time and effort with the anticipation of being prioritized "in the funding" for the 2013 biennium TSEP program. While delaying the project will not totally require starting from scratch for the 2015 TSEP program, there is little question that the engineering reports will need to be updated, the local interest will need to be reevaluated, and the funding packages will need to be revised. The elimination of the program in the 2013 biennium will inevitably force applicants to pay additional costs for their projects.

Often times, TSEP projects are planned to correct serious problems with current systems. Many local governments have systems that are out of compliance with state and federal drinking water and wastewater standards. Without the assistance of the TSEP, it is likely to take more time and money to bring the system back into compliance. Some of the local governments do not have the access to sufficient funds to fix the problem, and in those cases, the problem may not be resolved and the local governments could potentially face fines for their lack of compliance. In other cases, local governments may attempt to replace the TSEP component of their funding package with loans, resulting in higher costs to the citizens.

There could be a negative impact to local governments related to the lack of appropriation for TSEP grants. The Long-Range Planning subcommittee may wish to determine if this executive proposal, to transfer TSEP funds to the general fund, is logical and justifiable under the circumstances.

The executive budget recommendation extends the coal severance tax distribution to the TSEP trust for an additional five years. Currently, the endowment receives 50% of the coal severance tax statutorily deposited into the permanent coal tax trust (approximately 25% of the total tax receipts). The distribution is statutorily scheduled to end on June 30, 2016. The statutory amendment, included in HB 11, will extend the distribution until June 30, 2021.

Funding

TSEP administrative costs and grant appropriations are funded with the interest earnings from a coal severance tax endowment trust. The TSEP trust is a "sub-trust" of the permanent coal severance tax trust. The corpus of the sub-trust has grown since its formation in 1992. The TSEP trust balance is expected to be $200.4 million by the end of the 2011 biennium and is expected to grow by $25.3 million by the end of the 2013 biennium.

The fund balance table below shows the projected ending fund balance of the treasure state endowment state special revenue account for the 2013 biennium under present law assumptions. The TSEP account will begin the biennium with a negative beginning fund balance of $3.2 million. The negative beginning fund balance of July 1, 2011 results from the amount of grants that were authorized by the 2009 Legislature. It was the intent of the Sixty-first Legislature to fund all the 2011 biennium grant requests on the condition that they meet the program "start-up conditions" by the deadline of June 30, 2011. To provide the funding for the grants, the 2009 version of HB 11 contained an appropriation of up to $6.2 million in borrowed funds. The TSEP has statutory authority to borrow funds from the Board of Investments, per 90-6-701(1)(b), MCA for local government grants. At this time, the need for borrowed funds is estimated to be $3.3 million, and the loan will be repaid through the future earnings of the trust. The negative beginning fund balance is expected to be offset with the loan.

Treasure State Endowment Fund (02270) Fund Balance Projection 2013 Biennium		
Estimated Beginning Fund Balance (7/01/2011)		($3,246,651)
Estimate of Loan		$3,250,000
Revenue Projections[1]		
FY 2012 Interest Earnings	$9,484,000	
FY 2013 Interest Earnings	10,198,000	
2013 Biennium Revenues		$19,682,000
Proposed Expenditures[2]		
Administration - Commerce	($1,127,022)	
~~Administration - DNRC~~	~~(56,000)~~	
Emergency Grants	(100,000)	
Preliminary Engineering Grants	(900,000)	
Loan Repayment Expense[3]	(840,039)	
Total Expenditures		($2,967,061)
Balance		$16,718,289
Proposed Transfer to General Fund[2]		(17,614,270)
Estimated Ending Fund Balance - (6/30/2013)		($895,981)

[1] Based on RTIC estimates

[2] Based on executive budget proposal

[3] Assumptions are for a loan of $3.3 million for 10 years at a 5% rate of interest

TSEP interest earnings are expected to be $19.7 million for the biennium. There are several expenditures recommended from the TSEP state special fund. First, there is an expenditure of $1.1 million for the administrative costs of the program, which will be appropriated in the general appropriations act. In past years, the fund supported administrative costs at the Department of Natural Resources and Conservation (DNRC), but the Sixty-first Legislature amended the TSEP statutes to allow only the DOC to access the fund for the administrative program costs. While an appropriation is included in the executive budget, the appropriations will be recommended for elimination in the legislative budget negotiations. This fund balance analysis assumes that the costs will be eliminated. Other expenses appropriated in the TSEP bill include $100,000 for the emergency grants program and a $900,000 appropriation for preliminary engineering grants.

The TSEP balance sheet also includes the statutory appropriation of $840,039 for the 2013 biennium payments of the expected loan. The executive budget did not include any detail related to the loan repayment. This debt service expense is estimated by the LFD and assumes that TSEP would require a loan of $3.3 million to cover the costs of all the grant awards of the 2011 biennium. Additional assumptions include a loan maturity of 10 years and an interest rate of 5%.

Finally, the executive proposes to transfer $17.6 million from the TSEP fund to the general fund to balance the budget and provide an adequate general fund ending fund balance. In the original executive budget proposal, the amount transferred from the TSEP fund to the general fund was proposed to be $18.5 million, but upon recognition of the negative ending fund balance in the TSEP fund that would result from the $18.5 million transfer, the proposed transfer is expected to be reduced. With that transfer, the fund balance analysis shows that the TSEP state special revenue fund would be over expended by $895,981. The options available to the legislature are seen in the LFD Issue below.

LFD ISSUE

Negative Ending Fund Balance in the TSEP Fund

The TSEP state special fund spending proposals of the executive budget exceeds the anticipated revenue of the fund. Consequently, changes must be made to provide a positive ending fund balance. At this time, the fund is estimated to be over expended by $895,981. Options that the legislature might consider to correct the imbalance include:

- Reducing the administrative costs ($1.1 million)
- Reducing or eliminating the emergency and preliminary engineering grants ($1.0 million)
- Reducing the transfer to the general fund ($17.6 million)
- Any combination of the above mentioned items

LFD ISSUE

Legislative Approval Required

The executive balance sheet (*Governor's Executive Budget, Fiscal Years 2012-2013, Volume 1, page 1*) contains transfers of state special funds to the general fund as a way to provide the estimated ending fund balance of $238.5 million. A portion of the balance sheet transfers are from the transfer of $18.5 million of TSEP funds to the general fund (as originally proposed, but this amount is expected to be changed to $16.7 million in the December 15 executive budget revisions). Consequently, if the Sixty-second Legislature does not agree with policy of transferring funds from the TSEP fund (and not funding local government water and sewer infrastructure grants), and if the legislature wants to retain the ending fund balance of $238.5 million, then the legislature will be required to review the full range of budget priorities and tax policies to determine what other actions could be taken to replace the funds.

TREASURE STATE REGIONAL WATER PROGRAM

Program Description

The 1999 Legislature created the treasure state endowment regional water system fund as a new sub-trust within the coal tax permanent trust. The program is administered by the Department of Natural Resources and Conservation (DNRC). The Treasure State Endowment Program Regional Water System (TSEPRW), established in 90-6-715, MCA, was created to:

> *"...finance regional drinking water systems that supply water to large geographical areas and serve multiple local governments, such as projects in north central Montana, from the waters of the Tiber reservoir, that will provide water for domestic use, industrial use, and stock water for communities and rural residences that lie south of the Canadian border, west of Havre, north of Dutton, and east of Cut Bank and in northeastern Montana, from the waters of the Missouri River, that will provide water for domestic use, industrial use, and stock water for communities and rural residences that lie south of the Canadian border, west of the North Dakota border, north of the Missouri River, and east of range 39."*

Two projects that have received federal authorization and now qualify for a match of federal funding are the Fort Peck Indian Reservation/Dry Prairie Regional Water System (Fort Peck/Dry Prairie) and the Rocky Boy's Indian Reservation/North Central Montana Regional Water System (Rocky Boy's/NC Montana). The federal government estimates total project costs for Fort Peck/Dry Prairie at approximately $310 million and the Rocky Boy's/NC Montana at approximately $345 million (amounts as adjusted for inflation and indexed to 2012 by the US Bureau of Reclamation). The costs include a nonfederal (state and local) match of over $21 million for the Dry Prairie project and more than of $36 million for the NC Montana project. The federal government match for each regional water project local dollar is between $9 and $12. The local match is split evenly between the state and the local regional water authority, unless hardship is proved. In cases of hardship, the split is 75% for the state and 25% for the regional water authority.

LFD COMMENT

With the increased appropriations in the 2011 biennium, there is a likelihood that, from the perspective of the state match, the Dry Prairie water project could be completed by the end of the biennium.

A third project, the Dry-Redwater Regional Water System, would bring water to portions of Garfield, McCone, Richland, Prairie, and Dawson counties. The Dry-Redwater Regional Water Authority was established in FY 2006. A project feasibility study was completed in FY 2007. Engineering estimates of the cost of this system, including a surface water treatment plant and water delivery system, exceed $110 million ($112 million requested in Federal authorization legislation introduced in August 2008).

A fourth project, the Musselshell-Judith Regional Water System (Central Montana Regional Water Authority), has not qualified for federal funding, but it has received program approval from the state. The project received status as a regional water authority early in FY 2006. The system would serve over a dozen communities along the Judith and Lower Musselshell Rivers, at a total estimated cost of $90 million to $100 million, with groundwater wells as the source of the water.

Program Budget Comparison

The following table summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

Program Comparison - Treasure State Endowment Regional Water Program				
Budget Item	Budget 2011 Biennium	Budget 2013 Biennium	Biennium Change	Biennium % Change
Trust Balance (End of Biennium)	$61,211,781	$72,538,781	$11,327,000	18.50%
Trust Earnings	5,209,823	6,585,000	1,375,177	26.40%
	Appropriated	Proposed		
Project Cost	$15,000,000	$0	($15,000,000)	-100.00%
Total Costs	**$15,000,000**	**$0**	**($15,000,000)**	**-100.00%**
State Special	$7,000,000	$0	($7,000,000)	-100.00%
General Fund[1]	8,000,000	0	($8,000,000)	-100.00%
Total Funds	**$15,000,000**	**$0**	**($15,000,000)**	**-100.00%**
Transfer Proposal				
State Special		($4,823,825)		
General Fund		4,823,825		

[1] Transfer to state special revenue fund in 2011 biennium

As seen in the figure above, the executive proposes no new appropriations for the TSEPRW program in the 2013 biennium. This is $15.0 million, or 100%, less than the TSEPRW budget in the 2011 biennium. Included in the figure above is the proposal to transfer $4.8 million from the TSEPRW state special fund to the general fund.

Program Highlights

Treasure State Endowment Regional Water Program
Major Budget Highlights

- $4.8 million transfer of TSEPRW funds to the general fund in the 2013 biennium
- Projects are reduced by 100%

Major LFD Issues

- If the Sixty-second Legislature does not agree with the transfer of TSEPRW funds to the general fund, the Legislature will be required to find equivalent reductions elsewhere to retain the estimated general fund balance

Program Narrative

The executive budget proposal for the 2013 biennium will be presented in HB 11. No appropriations are proposed for TSEPRW projects. The proposal does include a transfer of $4.8 million of TSEPRW interest earnings to the general fund.

Funding

The TSEPRW trust is a "sub-trust" of the permanent coal severance tax trust. The corpus of the sub-trust has grown since its formation in 1999 with distributions of 25% of the coal severance tax deposited into the coal tax trust (12.5% of the total coal severance tax). The trust will continue to receive coal tax distributions until June 30, 2016. The trust balance is expected to be $61.2 million by the end of the 2011 biennium and is expected to grow by $11.3 million by the end of the 2013 biennium. The interest earned from the fund is transferred into the state

special fund authorized in Title 90, Section 6, part 7, MCA, to provide a match for federal and local monies for the purpose of developing large water systems.

The figure to the right shows the fund balance calculation for the TSEPRW account for the 2013 biennium. The beginning fund balance is expected to be $0 at the beginning of the 2013 biennium, indicating that the program plans to fully expend the project appropriations provided for the 2011 biennium. The trust earnings are expected to be $6.6 million in the 2013 biennium. Statutorily, the interest earnings of the trust may be used to fund the administrative expenses for the program, and the executive recommendation proposes an administrative appropriation of $1.4 million for the 2013 biennium, which will be appropriated in the general appropriation act. Most of the remaining TSEPRW funds, $4.8 million are proposed to be transferred to the general fund, leaving a balance of $337,547 at the end of the 2013 biennium.

TSEP Regional Water System Fund (02015) Fund Balance Projection 2013 Biennium		
Estimated Beginning Fund Balance (7/1/2011)		$0
Revenue Projections[1]		
2012 Interest Earnings	$3,089,000	
2013 Interest Earnings	3,496,000	
2011 Biennium Revenues		6,585,000
Proposed Expenditures[2]		
Administration - DNRC		(1,423,628)
Balance		$5,161,372
Proposed Transfer to General Fund[2]		(4,823,825)
Estimated Ending Fund Balance - (6/30/2013)		$337,547

[1]Based on RTIC estimates

[2]Based on executive budget proposal

LFD ISSUE

Legislative Approval Required

The executive balance sheet (*Governor's Executive Budget, Fiscal Years 2012-2013, Volume 1, page 1*) contains transfers of state special funds to the general fund as a way to provide the estimated ending fund balance of $238.5 million. A portion of the balance sheet transfers result from the transfer of $4.8 million of TSEPRW funds to the general fund. Consequently, if the Sixty-second Legislature does not agree with policy of transferring funds from the TSEPRW fund, and if the legislature wants to retain the ending fund balance of $238.5 million, then the legislature will be required to review the full range of budget priorities and tax policies to determine what other actions could be taken to replace the funds.

RENEWABLE RESOURCE GRANT AND LOAN PROGRAM

Program Description

The Renewable Resource Grant and Loan (RRGL) program was created by the 1993 Legislature. This program combines the former Renewable Resource Development Program, established in 1975, and the Water Development Program, established in 1981. As outlined under Title 85, Chapter 1, part 6, MCA, the purpose of the RRGL is to fund projects that "enhance Montana's renewable resources through projects that measurably conserve, develop, manage, or preserve resources."

The Department of Natural Resources and Conservation (DNRC) administers the RRGL program, which involves a biennial application process. DNRC and a technical review team initially evaluate each application for economic and technical feasibility, as well as to ensure that proposed projects are located in Montana. Qualifying applications are then examined according to six criteria:

- Financial feasibility
- Adverse environmental impact
- Technical merit
- Public benefit
- Renewable Resource Benefit

Program Budget Comparison

The following table summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

Program Comparison - Renewable Resource Grant and Loan Program				
Budget Item	Budget 2011 Biennium	Budget 2013 Biennium	Biennium Change	Biennium % Change
Number of Grants	89	59	(30)	-33.71%
	Appropriated	Proposed		
Grants Program	$9,904,593	$7,210,000	($2,694,593)	-27.21%
Loan Program	20,058,795	13,724,457	(6,334,338)	-31.58%
Total Costs	**$29,963,388**	**$20,934,457**	**($9,028,931)**	**-30.13%**
State Special	$5,755,797	$7,210,000	$1,454,203	25.27%
Bonds-Loan Program	20,058,795	13,724,457	(6,334,338)	-31.58%
General Fund	4,148,796	0	(4,148,796)	-100.00%
Total Funds	**$29,963,388**	**$20,934,457**	**($9,028,931)**	**-30.13%**

As seen in the figure above, the executive proposes a total of $20.9 million of appropriations for the RRGL programs in the 2013 biennium. Of the proposed appropriations, $7.2 million is for various grant programs/projects and $13.7 is for the loan program (only a reauthorization of previous authorized loans). This is $9.0 million, or 30.1%, less than the RRGL budget in the 2011 biennium. Both components of the RRGL are proposed to be reduced in the 2013 biennium, with the grant program proposed to be reduced by 27.2% and the loan program proposed to be reduced by 31.6%.

Program Highlights

Renewable Resource Grant and Loan Program Major Budget Highlights
◆ $5.8 million appropriation in the RRGL program will support 59 grants ◆ Total fund reduction of 27%

- No general fund transfers to the state special revenue fund
- State special revenue fund increase of 25%
- Loan program includes only reauthorization of past loans

Major LFD Issues

- RRGL and TSEP grants are both required for some projects
  - No TSEP grants in the 2013 biennium
  - RRGL grants alone may not fully support the project
- The executive budget over appropriates the state special revenue fund

Program Narrative – Grant Program

The RRGL program consists of two elements. First, there is a grant program that provides funding for various natural resource programs, the largest of which are the grants to local governments for projects that conserve, develop, manage, or preserve resources (RRGL). Included in the RRGL program are the appropriations for emergency grants and project planning grants. Project planning grants benefit local governments by providing funds to facilitate the application for the RRGL grant program. Other grant programs included in this budget include the irrigation grants program (providing grants for irrigation projects throughout the state) and the private grant program (benefits individuals with conservation projects). The second element of the RRGL is a loan program that provides low interest loans to various entities for conservation projects. More detail on the loan program is provided beginning on page F-32.

The figure below is a priority listing of the RRGL grants recommended in the executive budget for the 2013 biennium. DNRC received a total of 112 grant applications from local governments, from which 110 are recommended for grants at a cost of $10,598,971. While the executive budget mentions only that there are $10.6 million of recommended RRGL grants, HB 6 (RRGL bill) will contain an appropriation for $5.8 million for local government grants. This level of appropriation is a 27% reduction of the total funding of the 2011 biennium and could provide funding for the first 59 grants in the project list. Along with the local government grant proposals, the executive proposal also includes appropriations for $100,000 to fund the emergency grant program, $800,000 for project planning grants, $300,000 for irrigation development grants, $50,000 for private grants, and $180,000 for a state water plan and inventory. Total recommended appropriations for the RRGL program are $7.2 million.

Renewable Resource Grants (RRGL)
2013 Biennium

Rank		Applicant	Grant Requested	Grant Recommended	Cumulative Total
1		Mt Dnrc Wrd Hydropower Feasibility Study	$100,000	$100,000	$100,000
2	X	Sheridan, Town Of Wastewater System Improvements	100,000	100,000	200,000
3	X	Deer Lodge, City Of Wastewater System Improvements	100,000	100,000	300,000
4		Fergus Cd Big Spring Creek Stream Restoration, Machler Conserv Easement	100,000	100,000	400,000
5		Mt Dnrc Trust Land Management Division Smith Lake Dam Rehabilition	100,000	100,000	500,000
6	X	Culbertson, Town Of Wastewater System Improvements	100,000	100,000	600,000
7	X	Upper And Lower River Road Wsd Water And Wastewater System Improvements	100,000	100,000	700,000
8		Beaverhead Cd Poindexter Slough Fishery Enhancement	100,000	100,000	800,000
9		Pondera Cd Pondera County C Canal	100,000	100,000	900,000
10		Buffalo Rapids Project District 1 Irrigation System Improvements- Lateral 26.4	100,000	100,000	1,000,000
		Sub-Total:	$1,000,000	$1,000,000	

Renewable Resource Grants (RRGL) 2013 Biennium					
Rank		Applicant	Grant Requested	Grant Recommended	Cumulative Total
		Balance:	$1,000,000	$1,000,000	
11		Pondera Cd Irrig Infra Improv- Pondera Wasteway Rehab & Water Quality Improv	100,000	100,000	1,100,000
12		Flathead County Bigfork Stormwater System Improvements	100,000	100,000	1,200,000
13	X	Hebgen Lake Estates County Wsd Wastewater System Improvements	100,000	100,000	1,300,000
14	X	Harlem, City Of Wastewater System Improvements	100,000	100,000	1,400,000
15	X	Polson, City Of Water System Improvements	100,000	100,000	1,500,000
16	X	Amsterdam-Churchill Csd No. 307 Wastewater System Improvements	100,000	100,000	1,600,000
17		Stanford, Town Of Water System Improvements	100,000	100,000	1,700,000
18		Mt Department Of Fish, Wildlife & Parks Chadbourne Diversion Dam Repair And Selective Fish Passage Retrofits	99,500	99,500	1,799,500
19		Helena Valley Id Irrigation System Improvements -Pump No 2 Rehab	100,000	100,000	1,899,500
20	X	Belt, Town Of Water System Improvements	100,000	100,000	1,999,500
21	X	Sun Prairie Village County Wsd Water System Improvements	100,000	100,000	2,099,500
22		Fort Belknap Indian Community Water Conservation Project	100,000	100,000	2,199,500
23		Sweet Grass County Cd Big Timber Creek Channel Stabilization Project	99,998	99,998	2,299,498
24		Sidney Water Users Id Increasing Irrigation Efficiency: District 1 & 2, Phase 3	100,000	100,000	2,399,498
25		Sidney Water Users Id Increasing Irrigation Efficiency: District 5, Lateral 2	100,000	100,000	2,499,498
26		Clinton Id Irrigation System Improvements Schoolhouse Pipeline	100,000	100,000	2,599,498
27		East Bench Id Main Canal Check Structure Rehabilitation	100,000	100,000	2,699,498
28		Lower Musselshell Cd Delphia Melstone Irrigation Structure Rehabilitation/Canal Lining	100,000	100,000	2,799,498
29		Madison Cd South Meadow Creek Water Efficiency	100,000	100,000	2,899,498
30		Confederated Salish And Kootenai Tribes Jocko Upper S Canal Lining	100,000	100,000	2,999,498
31		Malta Id Dodson North Canal Siphons Replacement Project	100,000	100,000	3,099,498
32	X	Roberts Carbon County Wsd Water And Wastewater System Improvements	100,000	100,000	3,199,498
33		Chippewa Cree Tribe Dry Fork Farms Irrigation Enhancement Project	97,429	97,429	3,296,927
34		Flathead Joint Boc Jocko Upper J Canal Diversion Structure	100,000	100,000	3,396,927
35		Lockwood Id Irrigation System Improvements - Intake Canal Spillway Replacement	100,000	100,000	3,496,927
36		Glendive, City Of Gi Feasibility Study	100,000	100,000	3,596,927
37		Fort Shaw Id Irrigation System Improvements	100,000	100,000	3,696,927
		Sub-Total:	$3,696,927	$3,696,927	

Renewable Resource Grants (RRGL)
2013 Biennium

Rank		Applicant	Grant Requested	Grant Recommended	Cumulative Total
		Balance:	$3,696,927	$3,696,927	
38		Mt Dnrc Wrd East Fork Rock Creek Diversion And Fish Screen Project	100,000	100,000	3,796,927
39		Daly Ditches Id Irrigation System Improvements- Hedge Canal	100,000	100,000	3,896,927
40	X	Gallatin Gateway County Wsd Wastewater System Improvements	100,000	100,000	3,996,927
41		Greenfields Id Irrigation System Improvements -Big Coulee	100,000	100,000	4,096,927
42		Park Cd Irrigation System Improvements- Park Branch Paradise Canal	100,000	100,000	4,196,927
43		Huntley Project Id Irrigation System Improvements- Lower Canal Seepage Lining	100,000	100,000	4,296,927
44		Anaconda - Deer Lodge County Water System Improvement: System Wide Water Meter Installation	100,000	100,000	4,396,927
45	X	Fairfield, Town Of Water System Improvements	100,000	100,000	4,496,927
46		Fort Peck Tribes Irrigation System Improvements Lateral L-2M Rehab	100,000	100,000	4,596,927
47	X	Hardin, City Of Water System Improvements	100,000	100,000	4,696,927
48		Bitter Root Id Improvements- Siphon 1, Phase 2	100,000	100,000	4,796,927
49	X	North Havre County Wdt Water System Improvements	100,000	100,000	4,896,927
50		Roundup, City Of Musselshell Watershed Sustainable Irrigation Management	60,000	60,000	4,956,927
51		Mt Dnrc Water Resources Division Clark Fork River Basin Task Force	32,000	32,000	4,988,927
52		Green Mountain Cd Tuscor Creek Restoration Project	84,778	84,778	5,073,705
53	X	Lewistown, City Of East Fork Dam Repair	100,000	100,000	5,173,705
54		Crow Tribe Of Indians Water System Improvements Phase 4A	100,000	100,000	5,273,705
55	X	Hill County Wdt Water System Improvements	100,000	100,000	5,373,705
56	X	Roundup, City Of Water System Improvements	100,000	100,000	5,473,705
57		Kevin, Town Of Water System Improvements, Phase 3	100,000	100,000	5,573,705
58	X	Lacasa Grande Wsd Wastewater System Improvements	100,000	100,000	5,673,705
59		Whitefish, City Of Haskill Basin Water Conservation And Preservation Project	100,000	100,000	5,773,705
		Projects below this line are recommended only with available funding			
60		Ravalli County Phase 3 Lidar Mapping For Flood Hazard Id	75,000	75,000	5,848,705
61	X	Lockwood Wsd Wastewater System Improvements	100,000	100,000	5,948,705
62		Teton Cd Eureka Reservoir Improvements	100,000	100,000	6,048,705
63	X	East Helena, City Of Wastewater System Improvements	100,000	100,000	6,148,705
64	X	Missoula County Wastewater System Improvements- Spring Meadows Addition	100,000	100,000	6,248,705
		Sub-Total:	$6,248,705	$6,248,705	

Renewable Resource Grants (RRGL)
2013 Biennium

Rank		Applicant	Grant Requested	Grant Recommended	Cumulative Total
		Balance:	$6,248,705	$6,248,705	
65		Missoula County Lidar Mapping	50,000	50,000	6,298,705
66		Mt Dnrc Wrd Irrig Syst Improv- Martinsdale Supply Canal Headworks Rehab	98,688	98,688	6,397,393
67		Ravalli County Environmental Health Bitterroot Valley Septic Systems Impact Model, Phase 2	73,745	73,745	6,471,138
68		Foys Lakeside County Wsd Water Syst Improv: Main Replacement And System Wide Metering	100,000	100,000	6,571,138
69	X	Pablo Lake County Wsd Water System Improvements	100,000	100,000	6,671,138
70	X	Cut Bank, City Of Water System Improvements, Phase 4	100,000	100,000	6,771,138
71		University Of Montana Nat Heritage Prg Wetland & Riparian Mapping, L&M Musselshell	99,934	99,934	6,871,072
72		Bozeman High School, District #7 Mandeville Creek Restoration And Community Ed Project	100,000	100,000	6,971,072
73		White Sulpher Springs, City Of Water System Improvements	100,000	100,000	7,071,072
74		Mt Dnrc Wrd Cooney And Deadman'S Basin Automated Instrumentation	100,000	100,000	7,171,072
75		Park Cd Irrigation Infrastructure Improvements- Livingston Ditch	100,000	100,000	7,271,072
76		Carbon Cd Irrigation System Improvements- Whitehorse Canal	82,950	82,950	7,354,022
77	X	Ronan, City Of Stormwater System Improvements	100,000	100,000	7,454,022
78		Fromberg, Town Of Water System Improvements	100,000	100,000	7,554,022
79	X	Jordan, Town Of Water System Improvements	100,000	100,000	7,654,022
80		Lower Yellowstone Irrigation Project Boc Lyipboc Scada And Water Measurement Project	100,000	100,000	7,754,022
81		Butte-Silver Bow City-County Government Big Hole River (Bhr) Pumpstation Rehab	100,000	100,000	7,854,022
82	X	Manhattan, Town Of Water System Improvements	100,000	100,000	7,954,022
83		North Powell Cd Blackfoot Irrigation Efficiency	60,000	60,000	8,014,022
84		Kalispell, City Of Woodland Park Pond Remediation	100,000	100,000	8,114,022
85		Mt Dnrc Wrd Streamstats Interactive Web Map Application	100,000	100,000	8,214,022
86	X	Libby, City Of Wastewater System Improvements	100,000	100,000	8,314,022
87		Toston Id Crow Creek Pumping Plant Rehabilitation	100,000	100,000	8,414,022
88	X	Em-Kayan County Wsd Water System Improvments	100,000	100,000	8,514,022
89		Gallatin County Swd Logan Landfill Waste-To-Energy Feasibility Study	100,000	100,000	8,614,022
90		Hill County Cd Milk River Basin Riparian & Hydro Restor-Invasive Species Removal	54,245	54,245	8,668,267
91	X	Brady County Wsd Water System Improvements	100,000	100,000	8,768,267
		Sub-Total:	$8,768,267	$8,768,267	

Renewable Resource Grants (RRGL)
2013 Biennium

Rank		Applicant	Grant Requested	Grant Recommended	Cumulative Total
		Balance:	$8,768,267	$8,768,267	
92		Lincoln Cd Sinclair Creek Watershed Improvements	100,000	100,000	8,868,267
93		Tin Cup Wsd Lake Dam Improvements	94,638	94,638	8,962,905
94	X	Melrose Wsd Wastewater System Improvements	100,000	100,000	9,062,905
95	X	Augusta Wsd Wastewater System Improvements	100,000	100,000	9,162,905
96		Target Range Wsd Replacing Obsolete Septic Systems	100,000	100,000	9,262,905
97		Carbon Cd Irrigation Improvements Project- Pleasant Valley Canal Rehab	100,000	100,000	9,362,905
98		Troy, City Of Water System Improvements	100,000	100,000	9,462,905
99		Mt Dnrc Wrd Water Resource Survey Framework	71,000	71,000	9,533,905
100		University Of Montana Dev Wolf Pop Mntr Tech To Advance Mgt & Conserv Of Wildlife In Mt	100,000	100,000	9,633,905
101		Lockwood Area/Yellowstone County Wsd Water System Improvements	100,000	100,000	9,733,905
102	X	Eureka, Town Of Wastewater System Improvements	100,000	100,000	9,833,905
103	X	Joliet, Town Of Water System Improvements	100,000	100,000	9,933,905
104		University Of Montana Exper Assmt: Eco & Soc Dimensions Of Human Bear Conflict Mitig	99,067	99,067	10,032,972
105	X	Bigfork County Wsd Water System Improvements	100,000	100,000	10,132,972
106		Park County Shields River Surface And Groundwater Analysis	83,713	83,713	10,216,685
107		Petroleum County Cd Horse Creek Coulee Water Storage Project	82,286	82,286	10,298,971
108	X	Shelby, City Of West Interceptor Project	100,000	100,000	10,398,971
109		Sidney, City Of Optimizing Water Development From The Well Field	100,000	100,000	10,498,971
110	X	Thompson Falls, City Of Water System Improvements-Ashley Creek Transmission Main	100,000	100,000	10,598,971
		Projects below this line are not recommended for funding			
		Cascade Cd Whitmore Ravine Erosion Control And Storm Drainage, Phase 1	100,000		10,598,971
		Paradise Valley Id Main Canal Water Measurement Project	64,116		10,598,971
Total RRGL Grants Requested/Recommended			$10,763,087	$10,598,971	

X Coordination Indicator / Indicates TSEP Grant Request

LFD ISSUE

Undeveloped Budget Proposals (RRGL and RDGP)

By statute (Title 17, Chapter 7), the executive is required to submit a budget proposal to the Legislative Fiscal Analyst on November 15 (of the year prior to the start of the legislative session). According to 17-7-123, the proposal should include "...balanced financial plan for funds subject to appropriation". The executive proposal of Nov. 15, 2010 for the RRGL and RDGP grant programs budgets did not include the amounts proposed for the appropriations of projects. Consequently, to determine the level of appropriation and

the status of the state special revenue fund, the LFD was required to extract information from the related bill drafts. In these cases, staff is faced with the challenge of preparing a budget analysis that is pegged either to the printed executive budget or the draft legislation, and trying to determine which is intended to be the executive budget proposal.

The legislature may want to consider statutory revisions that will enhance the submittal of budgetary details by the executive. One option is to clarify the level of detail required to be submitted with the executive budget. Another possible solution would be to accelerate the budget submittal dates so legislative staff would have adequate time to request additional budget details if the information submitted is inadequate. When major revisions to the executive budget are submitted on December 15, it is impossible for staff to ferret out details and have a complete analysis done prior to the convening of the legislature.

LFD ISSUE

RRGL Projects Often Rely on TSEP Funding

Local governments contemplating the construction of water and wastewater infrastructure projects often rely on numerous sources of funding when developing their financial packages for what are always costly propositions. One of the major sources that local governments look to for financial assistance is the Treasure State Endowment Grant Program (TSEP). In the 2013 biennium, the executive budget does not include funding for TSEP infrastructure grants, but instead transfers most of the interest earnings to the general fund.

The RRGL grant table above includes an indicator, "X" next to those local governments who also applied for a TSEP grant. Of the 110 RRGL grant recommendations, 37 local governments (34%) pursued both RRGL and TSEP grants. Given the $5.8 million HB 6 appropriation, 19 of the 59 local governments (32%) that might anticipate RRGL grants in the 2013 biennium had applied for both programs.

The RRGL provides up to $100,000/grant while TSEP provides up to $750,000/grant. Consequently, the TSEP grant becomes a more important component of the project funding package. In some cases, without the TSEP grant, local governments will not be able to go forward with their project. The Long-Range Planning subcommittee may wish to request information from DNRC to determine which of the duel grant funded projects will not be feasible without a TSEP grant. At that time, the subcommittee will have the information to decide if the expected 19 projects should be removed from the prioritized list.

Funding

The funding for both the RRGL and (following) RDGP programs is managed from one fund, titled the "natural resource projects fund". For information related to the funding of the RRGL program, see page F-36.

Program Narrative – Loan Program

The second element of the RRGL program is the loan program. The loan program, typically proposed in HB 8, will authorize the issuance of coal severance tax bonds to finance RRGL project loans. Proceeds from the issuance of bonds are used to fund the loans, with loan repayments used to pay the debt service. Loans have differing interest rates based on the borrower's financial capacity for loan repayment. The interest payments on some of the bonds are subsidized with earnings from the coal severance tax bond fund. Because these are general obligation bonds, they constitute state debt that requires a two-thirds vote of the members of each house. Moreover, because money from the coal severance tax bond fund is pledged for debt service payments on the bonds, the RRGL loan/bond bill will also require a three-fourths vote of the members of each house, as directed by the Montana Constitution.

The executive budget recommendation does not contain requests for new loans in the 2013 biennium. However, the RRGL bond bill, typically designated as HB 8, will include the reauthorization of three loans originally authorized by the 2011 Legislature. The total request for bond authority and appropriation is $13.7 million and

includes loan re-authorizations of $6.3 million, $5.6 million for loans to projects that may not have completed RRGL grant requirements, and an additional amount of $1.8 million to establish a reserve for the bonds.

Renewable Resource Loans
2013 Biennium

Loans-Sponsor/Project	Loan Recommendation	Cumulative Total
Section 1[1]		
Subsection (2) Projects (4.5% or State bond rate, whichever is lower-15 years)		
DNRC-Water Resource Division (WRD)		
Ruby Dam Rehabilitation Project-Phase 2	$2,000,000	$2,000,000
Subsection (3) Projects (3.0% or State bond rate, whichever is lower-20 years)		
DNRC-Conservation and Resource Development Division (CARDD)		
Refinance Existing Debt or Rehabilitation of Water and Sewer Facilities	2,859,000	4,859,000
Subsection (4) Projects (4.5% or State bond rate, whichever is lower-30 years)		
Sunset Irrigation District		
Sunset Irrigation District	1,465,266	6,324,266
Total Loan Authorizations:	$6,324,266	
Additional Loan Authorizations[2]:	5,610,044	
Loan Reserve:	1,790,147	
Total Bond Request	$13,724,457	

[1] Section 1 are loans to be reauthorized
[2] To finance loans in lieu of grants for grants recommended in the RRGL program
NOTE: Projects are grouped by differences in loan circumstances and interest rates.

Funding

The RRGL loan program is financed with coal severance tax bond issues. The Board of Examiners will be authorized to issue coal severance tax bonds in the amount of $13.7 million, which would be appropriated to the DNRC for financing the projects identified in the bill. The DNRC loan recommendations for the 2013 biennium are included in the figure above. The repayments of the loans financed with coal severance tax bonds are used to pay the debt service. Because the loans authorized in the RRGL loan/bond bill are sometimes offered at reduced rates, coal severance tax revenues subsidize these reduced rates. Consequently, less principal is invested in the Treasure State Endowment Fund, the Treasure State Endowment Regional Water System Fund, and the Economic Development Trust. As a result, the trust receives reduced interest earnings.

RECLAMATION AND DEVELOPMENT GRANT PROGRAM

Program Description

The Reclamation and Development Grants Program (RDGP) is designed to fund projects that, "...indemnify the people of the state for the effects of mineral development on public resources and that meet other crucial state needs serving the public interest and the total environment of the citizens of Montana" (90-2-1102, MCA).

As provided in statute, projects approved in the RDGP are intended to:

- Repair, reclaim, and mitigate environmental damage to public resources from non-renewable resource extraction
- Develop and ensure the quality of public resources for the benefit of all Montana citizens

The RDGP is administered by DNRC, which solicits, evaluates, and ranks applications on a biennial basis. In accordance with 90-2-1113, MCA, priority consideration is given to the Montana Board of Oil and Gas Conservation for $600,000 in grants and to any government entity for abandoned mine reclamation projects for $800,000 in grants over the biennium. No grant may exceed $300,000. Public entities eligible to apply for grants include state and local governments, political subdivisions, and tribal governments. Applications are evaluated according to specific criteria related to:

- Public benefit
- Need and urgency
- Appropriateness of technical design
- Financial feasibility
- Project management/organization

Program Budget Comparison

The following table summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

Program Comparison - Reclamation and Development Grant Program				
Budget Item	Budget 2011 Biennium	Budget 2013 Biennium	Biennium Change	Biennium % Change
Number of Grants	23	23	0	0.00%
	Appropriated	Proposed		
Grants Cost	$7,027,122	$6,849,000	($178,122)	-2.53%
Total Costs	**$7,027,122**	**$6,849,000**	**($178,122)**	**-2.53%**
State Special	$5,232,856	$6,849,000	$1,616,144	30.88%
General Fund	1,794,266	0	(1,794,266)	-100.00%
Total Funds	**$7,027,122**	**$6,849,000**	**($178,122)**	**-2.53%**

As seen in the figure above, the executive proposes appropriations of $20.9 million for the RDGP program in the 2013 biennium. Of the proposed appropriations, $6.0 million will fund reclamation and development grants and $0.8 million will fund project planning grants. This is $178,122, or 2.5%, less than the RDGP budget in the 2011 biennium.

Program Highlights

Reclamation and Development Grant Program Major Budget Highlights
◆ $6.0 million appropriation in the RDGP will support 23 RDGP grants ◆ Total fund reduction of 2.5%

- No general fund transfers to the state special fund
- State special fund increase of 31%

Legislative Action Issues

- The executive budget over appropriates the state special fund

Program Narrative

The figure below shows a priority listing of the RDGP grants recommended by the executive for the 2013 biennium. DNRC received 29 applications requesting grants of $7.7 million, from which 26 grants requesting $6.9 million are recommended.

Reclamation and Development Grants (RDGP)
2013 Biennium

Rank	Sponsor/Title	Grant Requested	Grant Recommended	Cumulative Total
1	MBOGC Eastern District Orphaned Well Plug & Abandonment & Site Restoration	$300,000	$300,000	$300,000
2	MBOGC Northern/Eastern District Orphaned Well Plug & Abandonment & Site Restoration	300,000	300,000	600,000
3	Ruby Valley CD Alder Gulch - Phase I Improvements	300,000	300,000	900,000
4	MDEQ Forest Rose Mine & Mill Site Reclamation	300,000	300,000	1,200,000
5	MDEQ Lily/Orphan Boy Mine Reclamation	300,000	300,000	1,500,000
6	Sanders Co Managing Aquatic Invasive Plant Species to Protect Montana's	300,000	300,000	1,800,000
7	MFWP Big Spring Creek PCB Remediation	300,000	300,000	2,100,000
8	MDNRC St. Mary & Milk River Basins Water Management Initiative	250,000	250,000	2,350,000
9	MDEQ Sand Coulee Public Water Supply System Restoration	300,000	300,000	2,650,000
10	Pondera Co Pondera County Oil & Gas Well Plug & Abandon Project	100,000	100,000	2,750,000
11	Teton Co Teton County Oil & Gas Well Plug & Ab&on	60,000	60,000	2,810,000
12	Fort Peck Tribes Reclamation of the Philip Red Eagle 2-25 Salt Water Disposal	254,782	254,782	3,064,782
13	MBOGC Southern District Orphaned Lease Battery Site Restoration	200,000	200,000	3,264,782
14	Shelby Shelby Refinery	300,000	300,000	3,564,782
15	Missoula Co Ninemile Creek Mining District - Phase II	228,345	228,345	3,793,127
16	MDEQ Zortman & L&usky Mines - Source Control Prioritization & Feasibility Evaluation	300,000	300,000	4,093,127
17	Missoula, City of Missoula Sawmill Site Wood Reclamation	300,000	300,000	4,393,127
18	Butte-Silver Bow Co Butte Mining District: Reclamation & Protection Project (Phase III)	300,000	300,000	4,693,127
	Sub-Total:	4,693,127	4,693,127	

Reclamation and Development Grants (RDGP) 2013 Biennium				
Rank	Sponsor/Title	Grant Requested	Grant Recommended	Cumulative Total
	Balance:	$4,693,127	$4,693,127	
19	Fergus Co Road Department Pentachlorophenol "Penta" Cleanup	300,000	300,000	4,993,127
20	Meagher Co CD Thomas Creek Placer	162,797	162,797	5,155,924
21	MDEQ Beal Pit Run On Controls, Pond Removal	300,000	300,000	5,455,924
22	Crow Tribe of Indians Big Horn River Restoration	300,000	300,000	5,755,924
23	Richland Co CD Lower Yellowstone River Bank Restoration	293,078	293,078	6,049,002
	Projects below this line are recommended only with available funding			
24	MDEQ Landusky Mine - Clarifier Construction	300,000	300,000	6,349,002
25	MFWP Impacts of Energy Development & Leasing Stipulations on Mule Deer Habitat Selection, Distribution, & Population Dynamics	300,000	300,000	6,649,002
26	Anaconda-Deerlodge Co Anaconda Superfund Remediation Trails Program	300,000	300,000	6,949,002
	Projects below this line are not recommended for funding			
	Cascade Co CD (withdrawn) Whitmore Ravine Erosion Control Project Coordinator	253,000	0	6,949,002
	Cascade Co CD Whitmore Ravine Erosion Control & Storm Drainage, Phase 1	300,000	0	6,949,002
	Powder River CD Predevelopment Hydrology Determination for the Proposed Otter Creek Coal Mine Within the Regional Framework	239,496	0	6,949,002
Total R&D Grants Requested/Recommended		$7,741,498	$6,949,002	

While the executive budget mentions that there are 26 recommended projects amounting to $6.9 million of RDGP grants, HB 7 (RDGP bill) will contain an appropriation for $6.0 million for reclamation and development grants. This level of appropriation is a 2.5% reduction of the total funding of the 2011 biennium and could provide funding for the first 23 grants in the project list. The executive proposal also includes an appropriation $800,000 for project planning grants. In accordance with 90-2-1113, MCA, priority consideration is given to the Montana Board of Oil and Gas Conservation for $600,000 in grants (projects ranked 1 and 2) and to any government entity for abandoned mine reclamation projects for $800,000 in grants (actual authorization of $900,000 for projects ranked 3, 4, and 5) over the biennium.

Funding

The natural resource projects account funds appropriations for natural resource grants authorized by the legislature in the RRGL and the RDGP, as well as various other natural resource programs. The account receives the income from the following sources:

- Interest income of the resource indemnity trust (RIT) fund as provided in and subject to the conditions of 15-38-202, MCA ($3.5 million each fiscal year for the purpose of making grants)
- Resource indemnity and ground water assessment tax (RIGWA) under provisions of 15-38-106, MCA (50% of the remaining proceeds, after appropriations for CIRCLA debt service, and $366,000 to the groundwater assessment account, for the purpose of making grants)
- Oil and gas production tax as provided in 15-36-331, MCA (2.16% of oil and natural gas production taxes remaining after the distributions pursuant to subsections (2) and (3))

- Excess coal severance tax proceeds allocated by 85-1-603, MCA to the renewable resource loan debt service fund (above debt service requirements as provided in and subject to the conditions of 85-1-619, MCA)

As shown in the fund balance table to the right, the natural resource project account will have a beginning fund balance of $749,484 in the 2013 biennium. This beginning fund balance is primarily the result of greater than anticipated revenues from the oil and natural gas tax. Revenues for the biennium, as provided in the Revenue and Transportation Interim Committee (RTIC) estimates, are expected to be $12.6 million.

Appropriations from the natural resource projects account are authorized in Title 15, Chapter 38, MCA, which states, "Appropriations may be made from the natural resources projects state special revenue account for grants and loans for designated projects and the activities authorized in 85-1-602 and 90-2-1102", the RRGL and RDGP programs. In the 2013 biennium, the executive budget recommends total appropriations of $7.2 million for RRGL program and $6.8 million for the RDGP program from the natural resource projects account. Because the executive recommendation appropriates more than the anticipated revenues, the ending fund balance is a negative $707,331.

Natural Resource Project Account (02577) Fund Balance Projection 2013 Biennium		
Estimated Beginning Fund Balance (7/1/2011)		$749,484
Revenue Projections[1]		
RIT Interest Earnings	$7,000,000	
Resource Indemnity & Groundwater Tax	818,172	
Oil and Natural Gas Tax	4,513,513	
Excess Coal Tax Proceeds	250,000	
Loan Re-payment	500	
Administrative Fees	20,000	
2013 Biennium Revenues		12,602,185
HB 6 Appropriations[2]		
Emergency Grants	($100,000)	
Project Planning Grants	(800,000)	
Irrigation Development Grants	(300,000)	
Water Project Private Grants	(50,000)	
State Water Plan and Inventory	(180,000)	
Proposed RRGL Grants	(5,780,000)	
Total RRGL Appropriations		($7,210,000)
HB 7 Appropriations[3]		
Project Planning	($800,000)	
Proposed RDGP Grants	(6,049,000)	
Total RDGP Appropriations		(6,849,000)
Estimated Ending Fund Balance (6/30/2013)		($707,331)

[1]RTIC recommendations
[2]Executive grant proposal, HB 6
[3]Executive grant proposal, HB 7

LFD ISSUE

Negative Ending Fund Balance

The natural resource project state special revenue fund is expected to end the 2013 biennium with a negative ending fund balance, when considering the Revenue and Transportation Interim Committee (RTIC) revenue estimates and the executive budget recommendation. The negative ending fund balance results from the proposed over appropriation of the fund. According to the Montana Constitution, Article VIII, Section 9, appropriations by the legislature shall not exceed anticipated revenue. After review of the RRGL and RDGP budgets, the Long-Range Planning Subcommittee will be required to adjust the total appropriations to agree with the anticipated revenues.

The options available to the subcommittee include:

- Reduce project appropriations for the RRGL and RDGP programs (and reduce the authorized grants)
- Reduce or eliminate other grant programs/projects
- A combination of the above mentioned items

CULTURAL AND AESTHETIC GRANT PROGRAM

Program Description

The Cultural and Aesthetic Grant Program (C&A), as provided in Title 22, Chapter 2, part 3, MCA, is administered by the Montana Arts Council (MAC). Interest earnings from a statutory trust, which receives coal severance tax revenues, fund the grant program. By statute, the interest from the cultural trust is to be appropriated for protection of works of art in the State Capitol and other cultural and aesthetic (C&A) projects, 15-35-108, MCA.

Grant applications for cultural and aesthetic projects are submitted to the MAC on a biennial basis. Eligible applicants include the state of Montana and regional, county, city, town, or Indian tribal governments. A 16-member Cultural and Aesthetic Projects Advisory Committee, with eight members appointed by the Montana Arts Council and eight appointed by the Montana Historical Society, reviews each application. The committee prioritizes the requests and makes funding recommendations to the legislature as part of the executive budget. All grants require legislative approval in accordance with 22-2-306 through 309, MCA.

Program Budget Comparison

The following table summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

Program Comparison - Cultural and Aesthetic Trust Budget Item	Budget 2011 Biennium	Budget 2013 Biennium	Biennium Change	Biennium % Change
Trust Balance (End of Biennium)	$11,389,656	$11,986,656	$597,000	5.24%
Trust Earnings	1,082,130	1,099,000	16,870	1.56%
Number of Grants	97	83	(14)	-14.43%
	Appropriated	Proposed		
Grants Cost	$885,400	$694,976	($190,424)	-21.51%
Capitol Complex Works of Art	30,000	30,000	0	0.00%
Total Costs	**$915,400**	**$724,976**	**($190,424)**	**-20.80%**
State Special	$915,400	$724,976	($190,424)	-20.80%
Total Funds	**$915,400**	**$724,976**	**($190,424)**	**-20.80%**

As seen in the figure above, the executive proposes appropriations of $724,976 for the C&A grant program in the 2013 biennium. Of the proposed appropriations, $694,976 will fund C&A grants and $30,000 will fund works of art in the capitol complex. This is $190,424, or 21.5%, less than the C&A budget in the 2011 biennium.

Program Highlights

Cultural and Aesthetic Grant Program Major Budget Highlights
♦ 83 grant recommendations, a reduction of 14% from the 2011 biennium ♦ Overall program reductions of 21%
Legislative Action Issues
♦ Proposal provides negative ending fund balance

Program Narrative

The executive recommendation for C&A grants will be introduced in HB 9. The first C&A priority recommended for funding is a $30,000 appropriation to the Montana Historical Society for the care and conservation of capitol complex artwork, in accordance with 2-17-805, MCA. The second priority is 83 C&A grant awards totaling $694,976. The recommended awards are listed in the figure below in priority order within four categories, which include Special Projects costing $4,500 or less, Special Projects greater than $4,500, Operational Support Projects, and Capital Expenditure Projects. In the 2013 biennium there are no projects recommended in the fifth, "Challenge Grant", category.

Cultural and Aesthetic Grants (C&A)
2013 Biennium

Rank	Grant Number	Applicant	Grant Requested	Grant Recommended	Cummulative Total
Special Project <= $4500					
1	1607	Signatures from Big Sky	$4,500	$4,500	$4,500
2	1604	Miles City Speakers Bureau	4,000	4,000	8,500
3	1609	Upper Swan Valley Historical Society Inc	4,400	4,400	12,900
4	1603	Mai Wah Society	4,400	3,000	15,900
5	1606	Montana Storytelling Roundup	4,500	3,000	18,900
6	1608	String Orchestra of the Rockies	4,500	3,000	21,900
7	1610	Yellowstone Ballet Company	4,500	3,000	24,900
8	1600	Clay Arts Guild	3,560	2,500	27,400
9	1605	Mission Valley Friends of the Arts	4,500	2,000	29,400
		Projects below this line are not recommended for funding			
10	1601	Council for the Arts	4,000	0	29,400
11	1602	Granite County Museum and Cultural Center	4,500	0	29,400
		Total Special Projects < $4500	$47,360	$29,400	
Special Project > $4500					
1	1621	Humanities Montana	$50,000	$15,000	44,400
2	1632	The CoMotion Dance Project	17,477	10,000	54,400
3	1617	Emerson Center for the Arts & Culture	8,000	7,000	61,400
4	1630	Musikanten Inc	8,009	8,009	69,409
5	1622	KUFM-TV	25,090	7,500	76,909
6	1634	Whitefish Theatre Co	20,000	9,000	85,909
7	1611	Bitter Root Cultural Heritage Trust	10,000	5,000	90,909
8	1626	Montana Historical Society	36,035	7,500	98,409
9	1614	Broadwater Productions, Inc.	29,945	10,000	108,409
10	1620	Hockaday Museum of Art	38,343	9,000	117,409
11	1631	Queen City Ballet Company	14,000	5,000	122,409
12	1624	Missouri Valley Development Corporation	20,000	5,000	127,409
13	1635	Zootown Arts Community Center	11,000	5,000	132,409
14	1623	Missoula Art Museum	22,500	7,500	139,909
15	1613	Bozeman Symphony Society	20,000	8,000	147,909
16	1633	Tobacco Valley Improvement Assoc, Board of Arts	12,256	2,500	150,409
17	1619	Hamilton Players, Inc.	37,750	4,400	154,809
18	1612	Bitter Root Valley Historical Soc/Ravalli Co Musm	15,000	3,000	157,809
19	1615	Butte-Silver Bow Public Archives	20,000	5,000	162,809
20	1629	Museum of the Rockies	44,967	5,000	167,809
21	1627	Montana Museum of Art & Culture	25,800	5,000	172,809
22	1618	Fraternal Order of Eagles	25,000	4,000	176,809
		Projects below this line are not recommended for funding			
23	1625	Montana Ballet Company	4,500	0	176,809
24	1616	Butte-Silver Bow Public Library	21,000	0	176,809
		Total Special Projects > $4500	$536,672	$147,409	

CULTURAL AND AESTHETIC GRANT PROGRAM

Cultural and Aesthetic Grants (C&A)
2013 Biennium

Rank	Grant Number	Applicant	Grant Requested	Grant Recommended	Cummulative Total
		Balance:			$176,809
Operational Support					
SSO1	1668	Museums Association of Montana	$13,800	$10,000	186,809
SSO2	1665	Montana Preservation Alliance	40,000	15,000	201,809
SSO3	1662	Montana Arts	40,600	12,500	214,309
SSO4	1657	MAGDA	25,000	12,000	226,309
SSO5	1628	Montana Performing Arts Consortium	36,600	12,500	238,809
SSO6	1663	Montana Association of Symphony Orchestras	21,500	12,500	251,309
SSO7	1664	Montana Dance Arts Association	24,850	12,000	263,309
1	1689	YMCA Writer's Voice	31,000	15,000	278,309
2	1685	VSA Arts of Montana	13,050	10,112	288,421
3	1649	District 7 Human Resources Development Council	30,000	15,000	303,421
4	1666	Montana Shakespeare in the Parks	40,000	15,000	318,421
5	1638	Archie Bray Foundation	50,000	12,500	330,921
6	1647	Carbon County Historical Society	30,000	16,000	346,921
7	1654	Helena Symphony Society, Inc.	40,000	15,000	361,921
8	1648	Custer County Art & Heritage Center	32,000	13,000	374,921
9	1679	Stillwater Historical Society	17,500	12,000	386,921
10	1640	Beaverhead County Museum	22,550	16,000	402,921
11	1651	Glacier Symphony and Chorale	30,000	13,000	415,921
12	1673	Pondera History Association (PHA)	24,000	12,000	427,921
13	1677	Schoolhouse History & Art Center	58,474	15,000	442,921
14	1655	Holter Museum of Art	70,000	12,500	455,421
15	1686	Western Heritage Center	30,000	12,000	467,421
16	1652	Great Falls Symphony	24,000	12,000	479,421
17	1644	Butte Citizens for Preservation and Revitalization	16,940	12,000	491,421
18	1642	Billings Symphony Society	25,000	12,000	503,421
19	1641	Big Horn Arts and Craft Association	20,000	12,000	515,421
20	1636	Alberta Bair Theater	60,000	10,000	525,421
21	1639	Art Mobile of Montana	30,000	12,000	537,421
22	1680	Sunburst Foundation	12,800	8,000	545,421
23	1661	Montana Artists Refuge	10,000	5,000	550,421
24	1643	Butte Center for the Performing Arts	30,000	8,000	558,421
25	1671	Paris Gibson Square Museum of Art	60,000	10,000	568,421
26	1656	Intermountain Opera Association	20,000	8,000	576,421
27	1658	MCT, Inc.	30,000	7,500	583,921
28	1674	Rimrock Opera	25,532	7,500	591,421
29	1683	The Montana Repertory Theatre	50,028	5,000	596,421
30	1645	Butte Symphony Association	23,020	7,500	603,921
31	1676	Rocky Mountain Ballet Theatre	23,090	8,000	611,921
32	1669	North Valley Music School	19,379	8,000	619,921
33	1650	Gallatin Historical Society	14,000	6,000	625,921
34	1678	Southwest Montana Arts Council	23,105	8,000	633,921
35	1687	World Museum of Mining	46,458	5,000	638,921
36	1688	Yellowstone Art Museum	100,000	8,000	646,921
37	1653	Helena Presents/Myrna Loy Center	24,000	8,000	654,921
38	1637	Alpine Artisans	23,150	4,000	658,921
39	1670	Northwest Montana Historical Society	20,000	5,000	663,921
40	1660	Missoula Cultural Council	3,680	3,680	667,601
41	1682	The Equinox Theatre	50,000	2,000	669,601
42	1667	Friends of the Museum of the Plains Indian	7,960	2,000	671,601
43	1672	Pondera Arts Council	21,900	2,000	673,601
		Projects below this line are not recommended for funding			
44	1646	Carbon County Arts Guild & Depot Gallery	62,900	0	673,601
45	1675	River and Plains Society, Inc	24,000	0	673,601
46	1681	The Children's Museum of Northeast Montana	32,084	0	673,601
47	1659	Miles City Preservation Office	6,000	0	673,601
48	1684	Vigilante Theatre Company	28,500	0	673,601
		Total Operational Support	$1,688,450	$496,792	

Cultural and Aesthetic Grants (C&A) 2013 Biennium					
Rank	Grant Number	Applicant	Grant Requested	Grant Recommended	Cummulative Total
		Balance:			$673,601
Capital Expenditure					
1	1691	Fort Peck Fine Arts Council, Inc.	$18,380	$16,375	$689,976
2	1692	Laurel Revitalization League Inc.	8,000	5,000	694,976
		Projects below this line are not recommended for funding			
3	1690	Ewam	30,000	0	694,976
		Total Capital Expenditure	$56,380	$21,375	
Total C&A Grants Requested/Recommended			$2,328,862	$694,976	

Funding

Funding for the C&A program comes from the interest earnings from the cultural trust. The trust receives a statutory dedicated 0.63% of coal severance tax revenues. At the end of the 2011 biennium, the cultural trust balance is projected to be approximately $11.4 million, and the balance is expected to grow by approximately $597,000 during the 2013 biennium.

Cultural & Aesthetic Grant Fund (02009) Fund Balance Projection, 2013 Biennium		
Estimated Beginning Fund Balance (7/1/2011)		$0
Revenue Projections[1]		
FY2012 Interest Earnings	$543,000	
FY2013 Interest Earnings	560,000	
2011 Biennium Revenues		$1,103,000
Proposed Expenditures		
Administration and Folklife[2]	($406,245)	
Capitol Complex Works of Art	(30,000)	
Grants[3]	(694,976)	
Total Expenditures		($1,131,221)
Estimated Ending Fund Balance (6/30/2013)		($28,221)

[1] RTIC recommendations
[2] Executive general appropriations act proposal
[3] Executive grant proposal

The figure to the right shows the projected balance of the C&A state special fund for the 2013 biennium. Based on the assumptions adopted by the Revenue and Transportation Interim Committee (RTIC), interest earnings of the cultural trust will total $1.1 million for the 2013 biennium. Expenditures for the C&A program are limited by the amount of interest earned from the trust investments. The executive budget proposal includes $406,245 for administrative expenses and the folklife program (as appropriated in the general appropriations act). In the 2013 biennium, program administration costs are almost 37% of the total available program funds. The administrative cost ratio is higher than usual in the 2013 biennium because the trust is expected to earn lower interest income through the period. Program expenditures also include $30,000 for a statutorily required appropriation for capitol complex works of art, and grant funding proposals of $694,976.

Using the RTIC revenue estimates and the executive budget proposals, the ending fund balance is projected to be a negative $28,221. The negative balance is caused by the difference of the revenue estimates of the RTIC and the executive branch. To correct the negative balance, the legislature may wish to consider changes in the recommended program appropriations.

LFD COMMENT

In past biennia, the C&A grant program has experienced interest earnings that have not kept pace with legislative appropriations. When revenue shortfalls occur, language contained in the C&A appropriation bill has provided for a reduction of grants, those awards greater than $4,500, on a pro-rata basis. While some grant recipients are able to absorb the lower grant terms, in a number of cases program plans for the grant dollars are established and irreversible, causing financial harm to the recipient. To mitigate the negative effects of interest income shortfalls, past legislatures have allowed a "cushion" of around 3.5% of all grant awards as an ending fund balance in the C&A grants fund. The 62nd Legislature's Long-Range Planning Subcommittee may wish to consider making changes in the current level of program appropriations to provide a "cushion" or ending fund balance in the C&A grants fund (02009).

CULTURAL AND AESTHETIC GRANT PROGRAM

LFD ISSUE

Negative Ending Fund Balance

The cultural and aesthetic grants state special fund is expected to end the 2013 biennium with a negative ending fund balance, in consideration of the Revenue and Transportation Interim Committee (RTIC) revenue estimates and the executive budget spending recommendation. The negative ending fund balance results from an over appropriation of the fund in the executive recommendation. According to the Montana Constitution, Article VIII, Section 9, appropriations by the legislature shall not exceed anticipated revenue. After review of the C&A budget, the Long-Range Planning Subcommittee may wish to consider adjustments the total appropriations of the fund. Options for corrective action include:

- Recommend that the appropriate subcommittee reduce the administrative appropriation
- Reduce grant appropriations and related grant authorizations
- A combination of the above mentioned items

QUALITY SCHOOL FACILITY GRANT PROGRAM

Program Description

The Quality Schools Facilities Grant Program (QSFP) is a competitive grant program, administered by the Department of Commerce (DOC), which was created to provide infrastructure grants, matching planning grants, and emergency grants to public school districts in Montana. The statute creating the program was passed by the Sixty-first Legislature and is found in 90-6-801, MCA. The principal objectives of the QSFP are to:

- Solve urgent and serious public health or safety problems, or enable public school districts to meet state or federal health or safety standards
- Provide improvements necessary to bring school facilities up to current local, state, and federal codes and standards
- Enhance public school districts' ability to offer specific services related to the requirements of the accreditation standards provided for in Section 20-7-111, MCA
- Provide long-term cost-effective benefits through energy-efficient design
- Incorporate long-term, cost-effective benefits to school facilities, including the technology needs of school facilities
- Enhance educational opportunities for students

Grants are made through an application process available to all of the 421 school districts across the state. In the role of prioritizing grants, the DOC must consider (without preference or priority) the following attributes of a school facility project application:

- The need for financial assistance
- The fiscal capacity of the public school district to meet the conditions established in 90-6-812
- Past efforts to ensure sound, effective, long-term planning and management of the school facility and attempts to address school facility needs with local resources
- The ability to obtain funds from other sources
- The importance of the project and support for the project from the community

Program Budget Comparison

The following table summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

Program Comparison - Quality School Facility Program

Budget Item	Budget 2011 Biennium	Budget 2013 Biennium	Biennium Change	Biennium % Change
Number of Grants	33	30	(3)	-9.09%
	Appropriated[1]	Proposed		
Grants Costs	$11,658,037	$12,069,265	$411,228	3.53%
Total Costs	**$11,658,037**	**$12,069,265**	**$411,228**	**3.53%**
State Special	$11,242,334	$12,069,265	$826,931	7.36%
General Fund	415,703	0	(415,703)	-100.00%
Total Funds	**$11,658,037**	**$12,069,265**	**$411,228**	**3.53%**

1 Total program appropriations for the 2011 biennium include $12 million appropriated in HB 152 less administrative costs of $757,666 plus transferred appropriation authority from the Quick Start program of $415,703

Program Highlights

Quality School Facility Grant Program
Major Budget Highlights

- Appropriation of $11.1 million would fund 30 grants
- The number of grants is reduced by 3, or 9%, from the 2011 biennium

- Grant appropriations are increased by 3.5% from the 2011 biennium

Legislative Issues

- The executive budget proposes multiple reductions of QSFP funds in the 2013 biennium

Program Narrative

DOC received 66 complete applications requesting over $30 million in project grant funds, from which 30 grants requesting $11.1 million are recommended. The QSFP is expected to be presented to the Sixty-second Legislature in HB 15. The figure below shows a priority listing of the QSFP grants recommended by the executive for the 2013 biennium.

Quality School Facility Grant Program (QSFP)
2013 Biennium

Rank	Applicant / County / Description	Grant Requested	Grant Recommended	Cumulative Total
1	Big Sandy, Chouteau Lighting Retrofit and Occupancy Sensors	$124,340	$124,340	$124,340
2	Sweet Grass Co HS, Sweet Grass Update/Remodel of Ventilation/ Air Handling System	207,500	207,500	331,840
3	Somers, Flathead Replace roof at Somers Middle School	418,142	418,142	749,982
4	Box Elder, Hill Four-classroom addition to the elementary school	799,590	799,590	1,549,572
5	Winnett, Petroleum Complete new shop building; purchase equipment	565,450	314,107	1,863,679
6	White Sulphur Springs, Meagher Replace boiler with geothermal heating system	350,000	350,000	2,213,679
7	Helena Elementary, Lewis & Clark ADA Compliance for 5 Schools	1,429,796	1,429,796	3,643,475
8	Gardiner, Park Energy efficiency upgrades	77,500	43,694	3,687,169
9	Centerville, Cascade Boiler Replacement	148,534	148,534	3,835,703
10	Shelby Elementary, Toole Correct building envelope leakage	146,904	146,904	3,982,607
11	Fair-Mont-Egan, Flathead Classroom Addition	379,110	379,110	4,361,717
12	Livingston, Park Replace failing roof	709,336	709,336	5,071,053
13	Corvallis, Ravalli Construction of a new vocational facility	1,086,516	901,318	5,972,371
14	North Star, Hill Install fire alarm systems	123,386	123,386	6,095,757
15	Choteau, Teton Remedy safety issues at district's food service facilities	344,400	344,400	6,440,157
16	Miles City, Custer Temperature controls upgrade	442,841	442,841	6,882,998
17	Shelby HS, Toole Lighting retrofit	102,985	102,895	6,985,893
18	Rocky Boy, Hill Emergency Generator Replacement	72,650	72,650	7,058,543
19	Whitefish, Flathead Phase 1 redevelopment of HS campus (gym)	738,239	658,019	7,716,562
20	Colstrip, Rosebud Temperature controls upgrade	329,153	329,153	8,045,715
	Sub-Total:	$8,596,372	$8,045,715	

Quality School Facility Grant Program (QSFP) 2013 Biennium				
Rank	Applicant / County / Description	Grant Requested	Grant Recommended	Cumulative Total
	Balance:	$8,596,372	$8,045,715	
21	Whitehall, Jefferson Roof replacement on High School	534,232	534,232	$8,579,947
22	Stanford, Judith Basin Boiler Replacement	220,500	220,500	8,800,447
23	Grass Range, Fergus Air-lock doors & breezeway	38,315	38,315	8,838,762
24	Superior, Mineral Life Skills classroom and locker room expansion	521,162	521,162	9,359,924
25	Geraldine, Chouteau Energy efficiency improvements	164,000	106,900	9,466,824
26	Bozeman HS, Gallatin Lighting retrofit	109,087	109,087	9,575,911
27	Frazer, Valley Installation of high efficiency boiler	243,086	243,086	9,818,997
28	Libby, Lincoln Replace HS boiler	391,470	391,470	10,210,467
29	Hamilton, Ravalli Boiler & heat distribution system replacement	751,000	751,000	10,961,467
30	Bozeman Elementary, Gallatin Lighting retrofit	107,798	107,798	11,069,265
Total QSFG Grants Requested/Recommended		$11,677,022	$11,069,265	

Funding

In the May 2007 Special Session, the legislature passed SB 2, which created a new school facility improvement fund, in 20-9-516, MCA. The fund was established to provide money to schools for two purposes. First, the state special fund provides money for a $1.0 million/FY statutory appropriation to schools for information technology upgrades. Second, the fund provides money for infrastructure grants, matching planning grants, and emergency grants to public school districts in Montana. The money deposited in the fund may be used for major deferred maintenance, improving energy efficiency in school facilities, or critical infrastructure in school districts. For a number of years, before actual program development, the only income to the fund was royalties from mineral development on state lands, as directed in SB 2. By the end of FY 2010 (the last year that royalty income was deposited into the fund), the total royalty income deposited in the facility and technology fund was $53.1 million, which would act as the seed money for the new program.

The school facility and technology fund is expected to begin the biennium with $44.5 million, the funds remaining from the "seed money" mentioned above. The fund would normally receive revenues from the following sources:

- Public land trust power site rent (streambed rents) under the provisions of 77-4-208(2), MCA (ninety-five percent of all rental payments received under this section must be deposited in the school facility and technology account provided for in 20-9-516) – set in current law to begin January 1, 2012
- Timber harvest income under the provisions of 20-9-516(2)(a), MCA (the income attributable to the difference between the average sale value of 18 million board feet and the total income produced from the annual timber harvest on common school trust lands during the fiscal year)

The fund balance table below shows the executive budget recommendations for the 2013 biennium. The executive budget proposes to delay the starting date of the streambed rents to the QSFP fund for one biennium, with the income flowing instead to the state guarantee account for the 2013 biennium. Accepting this assumption, total revenue for the fund is expected to be $5.3 million in the 2013 biennium.

QUALITY SCHOOL FACILITY GRANT PROGRAM

The total executive expenditure proposal is $32.0 million. The expenditures include administrative expenses for the department of commerce of $729,373, which will be appropriated in the general appropriations act. For the 2013 biennium only, the executive budget proposes to "switch" the payment of school facility debt service, a statutory appropriation of $17.2 million, to the facility and technology fund. The remaining appropriations are related to the 2013 biennium QSFP and include $100,000 for emergency grants, $900,000 for facility deferred maintenance project planning, and $11.1 million for grants to school districts for facility projects. Considering the revenue projections and all the executive proposals, the QSFP ending fund balance is expected to be $17.8 million.

School Facility and Technology Fund (02218)
Fund Balance Projection 2013 Biennium

Estimated Beginning Fund Balance (7/01/2011)		$44,506,034
Revenue Projections[1]		
~~Public Land Trust Power Site Rent[2]~~	~~$8,470,261~~	
Timber Harvest Income	5,300,000	
2013 Biennium Revenues		5,300,000
Proposed Expenditures[2]		
Administration - Commerce	(729,373)	
School Facility Fund Switch (Section E)	(17,172,000)	
Technology Statutory Appropriation ($1.0 million/FY)	(2,000,000)	
Emergency Grants (Biennial)	(100,000)	
Planning Grants	(900,000)	
School Facility Grants	(11,069,265)	
Total Expenditures		(31,970,638)
Estimated Ending Fund Balance - (6/30/2013)		$17,835,396

[1]Based on RTIC estimates
[2]Based on executive budget proposal

LFD COMMENT

The executive budget proposes multiple reductions of funds that are set aside for school facility upgrades. The legislature may wish to review these changes in light of their priorities, but the actions related to the changes will not occur in HB 15, and the Long-Range Planning Subcommittee will not be directly involved in those policy decisions.

The reductions to the QSFP fund include a proposal to delay the start of the flow of the streambed rents for a biennium. In current law, the flow of revenue is set in law to begin January 1, 2012 and is expected to bring $8.5 million in revenue to the QSFP fund. The proposal would allow the funds to flow into the state guarantee account for the 2013 biennium. The second reduction is a funding switch of the debt service currently paid from the state guarantee account to the QSFP fund. This funding switch, equaling an expected $17.2 million, will cost the fund over a third of the monies expected in the fund in the 2013 biennium. The funding switch is a one-time only proposal for the 2013 biennium. For more information on these and other related issues, refer to section E of the Legislative Budget Analysis, 2013 biennium.

The policy implications of the QSFP fund reductions are significant and complex. The policy decisions will not be included in the QSFP bill, HB 15, but will be contained in other pieces of legislation (presumable heard in the Education Subcommittee). The members of the Long-Range Planning Subcommittee may want to discuss issues related to these reductions at the meetings of the full House Appropriation Committee.

SECTION F APPENDIX

The following figure includes the grant requests made to the Treasure-State Endowment Program for the 2013 biennium. This list is shown in priority order, following the ranking process of the program. This list is included as an appendix item because the executive budget did not recommend an appropriation to fund TSEP grants in the 2013 biennium. The executive instead proposed to transfer the funds from the TSEP state special revenue fund to the general fund (for more information see the TSEP section of this report on page F-18).

Treasure State Endowment Program (TSEP)
2013 Biennium

Rank[1]	Applicant	Type of Project	Amount Requested	Proposed Grant Award	Cumulative Proposed Award
1	Hardin, City of	Water	$500,000	$500,000	$500,000
2	Park County	Bridge	555,626	555,626	1,055,626
3	Sheridan, Town of	Wastewater	750,000	750,000	1,805,626
4	Yellowstone County	Bridge	157,227	157,227	1,962,853
5	Madison County	Bridge	699,931	699,931	2,662,784
6	Brady County W&S District	Water	750,000	750,000	3,412,784
7	Carter Choteau County W&S District	Water	750,000	750,000	4,162,784
7	Sun Prairie Village Co. W&S District	Water	625,000	625,000	4,787,784
9	Sweet Grass County	Bridge	156,678	156,678	4,944,462
10	Beaverhead County	Bridge	426,941	426,941	5,371,403
11	Carbon County	Bridge	406,695	406,695	5,778,098
12	Jefferson County	Bridge	218,634	218,634	5,996,732
13	Hebgen Lake Estates County W&S District	Wastewater	720,000	720,000	6,716,732
14	Augusta W&S District	Wastewater	295,000	295,000	7,011,732
15	Gallatin Gateway County W&S District	Wastewater	750,000	750,000	7,761,732
16	Fergus County	Bridge	276,157	276,157	8,037,889
17	Melrose W&S District	Wastewater	162,000	162,000	8,199,889
18	Blaine County	Bridge	434,309	434,309	8,634,198
19	Deer Lodge, City of	Wastewater	500,000	500,000	9,134,198
19	Lincoln County	Bridge	287,827	287,827	9,422,025
21	West Yellowstone/Hebgen Basin Refuse Disposal Dist.	Solid Waste	246,563	246,563	9,668,588
22	Eureka, Town of	Wastewater	625,000	625,000	10,293,588
23	Fairfield, Town of	Water	500,000	500,000	10,793,588
23	Ravalli County	Bridge	142,616	142,616	10,936,204
25	Granite County	Bridge	276,408	276,408	11,212,612
25	Roundup, City of	Water	500,000	500,000	11,712,612
27	Roberts - Carbon Co. W&S District	Wastewater	500,000	500,000	12,212,612
28	Lockwood W&S District	Wastewater	750,000	750,000	12,962,612
29	North Havre County Water District	Water	590,000	590,000	13,552,612
29	Sand Coulee Water District	Water	282,966	200,966	13,753,578
31	East Helena, City of	Wastwater	750,000	750,000	14,503,578
32	Bigfork W&S District	Water	750,000	750,000	15,253,578
33	Custer County	Wastewater	750,000	750,000	16,003,578
34	Crow Tribe for Crow Agency	Water	750,000	750,000	16,753,578
35	Hill County	Bridge	174,082	174,082	16,927,660
36	Polson, City of	Water	625,000	625,000	17,552,660
37	Big Horn County	Bridge	138,462	138,462	17,691,122
38	Thompson Falls, City of	Water	444,000	444,000	18,135,122
38	Joliet, Town of	Water	625,000	625,000	18,760,122
40	Amersterdam-Church Sewer District No. 307	Wastewater	750,000	750,000	19,510,122
41	LaCasa Grande W&S District	Wastewater	750,000	750,000	20,260,122
42	Sanders County for Paradise	Wastewater	500,000	500,000	20,760,122
43	Shelby, City of	Water	750,000	625,000	21,385,122
44	Hill County Water District	Water	750,000	625,000	22,010,122
45	Libby, City of	Wastewater	750,000	750,000	22,760,122
46	Manhatten, Town of	Water	750,000	625,000	23,385,122
47	Jordan, Town of	Water	500,000	500,000	23,885,122
48	Belt, Town of	Water	500,000	500,000	24,385,122
49	Em-Kayan Village W&S District	Water	500,000	466,000	24,851,122
49	Pablo-Lake County W&S District	Water	500,000	500,000	25,351,122
51	Ronan, City of	Stormwater	500,000	500,000	25,851,122
52	Forsyth, City of	Wastewater	500,000	500,000	26,351,122
53	Harlem, City of	Wastewater	750,000	625,000	26,976,122
54	Upper-Lower River Rd W&S District	Water/Wastewater	500,000	500,000	27,476,122
55	Cut Bank, City of	Water	500,000	500,000	27,976,122
56	Fallon County	Bridge	500,000	500,000	28,476,122
57	Culbertson, Town of	Wastewater	625,000	625,000	29,101,122
58	Bozeman, City of	Wastewater	500,000	500,000	29,601,122
59	Missoula County for Spring Meadows	Wastewater	500,000	0	29,601,122
Total			$30,717,122	$29,601,122	

[1] Some projects have the same rank number indicating they tied.
Note: Grants would be funded in priority order as available funds allow

Glossary / Acronyms / Index

www.leg.mt.gov/css/fiscal

Glossary

A number of terms are used extensively in budgeting and appropriations. The most common terms, which are used throughout the budget analysis and in other fiscal materials, are listed and defined below.

Adjusted Base – The base budget, the level of funding authorized by the previous legislature, modified by annualization of personal services costs, inflationary or deflationary factors, changes in fixed costs, etc.

Appropriations – An authorization by law for the expenditure of funds or to acquire obligations. Types of appropriations are listed below.

Biennial – A biennial appropriation is an appropriation made in the first year of the biennium, where the appropriated amount can be spent in either year of the biennium. In HB 2, it can be split between years, but still be biennial if so indicated.

Budget amendment – See "Budget Amendment" below.

Continuing – An appropriation that continues beyond one biennium.

Language – An appropriation made in the language of the general appropriations act for a non-specific or limited dollar amount. Language appropriations are generally used when an agency knows that it will be receiving federal or state special revenue funds but is uncertain as to the amount.

Line Item – An appropriation made for a specific purpose. Line item appropriations highlight certain appropriations and ensure that they can be separately tracked on the state accounting system.

One-time – Appropriations for a one-time purpose that are excluded from the base budget in the next biennium.

Restricted – An appropriation designated for a specific purpose or function.

Statutory – Funds appropriated in permanent law rather than a temporary bill. All statutory appropriations references are listed in 17-7-502, MCA.

Temporary - An appropriation authorized by the legislature in the general appropriations act or in a "cat and dog" bill that is valid only for the biennium.

Appropriation Transfers (also see "Supplemental Appropriation") – The transfer of funds appropriated for the second year of the biennium to the first if the Governor or other approving authority determines that due to an unforeseen or unanticipated emergency there are insufficient funds in the first year for the operation of an agency.

Approving Authority – The entity designated in law as having the authority to approve certain budgetary changes during the interim. The approving authorities are:

- The Governor or his/her designated representative for executive branch agencies
- The Chief Justice of the Supreme Court or his/her designated representative for the judicial branch agencies
- The Speaker of the House of Representatives for the House
- The President of the Senate for the Senate

- The appropriate standing legislative committees or designated representative for the legislative branch divisions
- The Board of Regents of Higher Education or their designated representative for the university system

Average Daily Population (ADP) – The population measure used to calculate population in the Montana correctional system. ADP is equivalent to one inmate incarcerated for one year.

Average Number Belonging (ANB) – The enrollment measure used for K-12 BASE aid calculations. ANB is the equivalent of one full-time student enrolled in school for the full school year.

Base – The level of funding authorized by the previous legislature.

Base Budget – The resources needed for the operation of state government that provide for expenses of an ongoing and non-extraordinary nature in the current biennium.

Benefits – An expenditure category used to account for the provision of payments or services by the government to individuals who qualify for receipt of those payments or services, such as Medicaid benefits. Personal services benefits for state employees are included in the personal services expenditure category.

Biennial Appropriation – An appropriation that can be expended in either or both years of the biennium.

Biennium – A two-year period. For the state, this period begins July 1 of the odd-numbered years and ends June 30 of the following odd-numbered year.

Budget Amendments – Temporary authority to spend unanticipated non-general fund revenue received after the legislature adjourns. The funds must be used to provide additional services and cannot make a commitment of general fund support for the present or future.

Cat and Dog Appropriations – One-time appropriations made in bills other than the general appropriations act.

Debt Service – The payment on outstanding bonds.

Decision Package – Separate, specific adjustments to the base budget. Decision packages can be either present law adjustments or new proposals.

Earmarked Revenue – Funds from a specific source that can be spent only for designated activities.

Enterprise Funds – A fund used to account for operations financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs, primarily through user charges.

Federal Special Revenue – Accounts deposited in the state treasury from federal sources, to be used for the operation of state government.

Fiduciary Funds – Funds used to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds.

Fiscal Note - An estimate, prepared by the Governor's Office of Budget and Program Planning, of the probable revenues and costs that will be incurred as the result of a bill or joint resolution.

Fiscal Year (FY) aka State Fiscal Year (SFY) – A 12-month accounting period beginning July 1 and ending June 30. Fiscal year 2003 refers to the fiscal year ending June 30, 2003. (Note: The federal fiscal year (FFY) is October 1 through September 30.)

Fixed Costs – Fees (fixed costs) charged to agencies for a variety of services provided by other state agencies (e.g., payroll service fees, rent, warrant writing services, and data network services.).

FTE – Full-Time Equivalent position, or the equivalent of one person working full-time for the entire year. Also used to denote full-time equivalent students in the Montana University System for purposes of calculating state support.

Fund – A fiscal entity with revenues and expenses which are segregated for the purpose of carrying out a specific purpose or activity.

General Fund – Accounts for all governmental financial resources except those that must be accounted for in another fund.

General Fund Reversions – Unspent appropriated funds that are returned to the general fund at the close of the budget period (fiscal year).

Grants – An expenditure category used to account for the payment by a government entity to an individual or other entity who will perform a service.

HB 2 –The General Appropriations Act in which the legislature authorizes the funding for state government for the upcoming biennium. Each session, House Bill 2 is reserved for this purpose.

Indirect Cost – A cost necessary for the functioning of the organization as a whole, but which cannot be directly assigned to a specific division or agency.

Interim – The time between regular legislative sessions.

Internal Service Funds – Funds use to account for the financing of goods and services provided by one department or agency to other departments, agencies, or governmental entities on a cost-reimbursement basis.

IRIS - The Integrated Revenue Information System (IRIS) is an automated system to administer taxes that are the responsibility of the Department of Revenue to collect.

Local Assistance – An expenditure classification primarily used to account for expenditures made for K-12 funding provided by the state to school districts.

MBARS – The Montana Budget Analysis and Reporting System, which provides all state agencies with one computerized system for budget development, maintenance and tracking, and is integrated with the State Accounting, Budget, and Human Resource System (SABHRS).

Mill – The property tax rate based on the valuation of property. A tax rate of one mill produces one dollar of taxes on each $1,000 of assessed property value.

New Proposals – Requests (decision packages) to provide new non-mandated services, to change program services, to eliminate existing services, or to change the source of funds.

Non-budgeted Expenditures – Accounting entries for depreciation, amortization, and other financial transactions that appear as expenditures, but don't actually result in direct dispersal of funds from the state treasury.

Non-budgeted Transfer – Funds moved from one account to another in the state accounting system based upon statutory authority but not by appropriation in the general appropriations act.

Operating Expenses – All operating expenditures that do not meet the personal services and capital outlay classification criteria. These expenditures include, but are not limited to, professional services, supplies, rent, travel, and repair and maintenance.

Other Funds – Capital projects and fiduciary funds.

> *Capital projects fund* – Accounts for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds.
>
> *Fiduciary funds* – Trust and agency fund types used to account for assets held by state government in a trustee capacity or as an agency for individuals, private organizations, other governmental entities, or other funds.

Pay Plan – Provision by the legislature of a general adjustment to salaries and/or benefits paid to state employees. Also refers to the pay schedule listing the state salary rate for each classified position according to that position's grade and the market rate.

Personal Services –Expenditures for salaries, benefits, per diem, and other additions, such as overtime.

Personal Services Snapshot – The point in time at which personal services attributes are captured and from which the personal services budget is determined. The executive budget personal services costs are based on a "snapshot" of actual salaries for authorized FTE as they existed in a pre-determined pay period in the base year.

Present Law – The additional level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature.

Present Law Adjustments – Requests (decision packages) for an adjustment in funding sufficient to allow maintenance of operations and services at the level authorized by the previous legislature (e.g., caseload, enrollment changes, and legally mandated workload).

Program – A group of related activities performed by one or more organizational units for the purpose of accomplishing a function for which the government is responsible. Also, a grouping of functions or objectives that provides the basis for legislative review of agency activities for appropriations and accountability purposes.

Proprietary Funds – Enterprise or internal service funds. Statute does not require that most proprietary funds be appropriated.

> *Enterprise funds* – Funds that account for operations financed and operated in a manner similar to private business enterprises, and through which the intent is to provide goods or services to the public.

Internal service funds- Funds that account for the financing of goods or services provided by one department or agency to other departments or agencies of state government.

Reporting Levels – Budget units dividing agency and program budgets into smaller units for the purpose of constructing, analyzing, and approving budgets.

SABHRS – The State Accounting, Budget, and Human Resource System that combines the state's accounting, budgeting, personnel, payroll, and asset management systems into one single system.

State Special Revenue – Accounts for money from state and other nonfederal sources that is earmarked for a particular purpose, as well as money from other non-state or nonfederal sources that is restricted by law or by the terms of an agreement.

Supplemental Appropriation – An additional appropriation made by the governing body after the budget year or biennium has started. There are two types of supplemental appropriations that can be used to increase spending authority for a fiscal year: 1) a transaction in an even-numbered year that moves spending authority from the second year of the biennium to the first year; or 2) an appropriation passed and approved by the legislature to provide authority for the odd-numbered fiscal year ending the current biennium.

Vacancy Savings – The difference between what agencies actually spend for personal services and the cost of fully funding all funded positions for the entire year.

Acronyms

AES	Agricultural Experiment Station
ACA	Affordable Care Act
ADP	Average Daily Population
AMDD	Addictive & Mental Disorders Division
ANB	Average Number Belonging (K-12 education)
ARM	Administrative Rules of Montana
ARRA	American Recovery and Reinvestment Act
BASE Aid	Base Amount for School Equity Aid
BPE	Board of Public Education
C&A	Cultural and Aesthetic (Trust)
CC	Community Colleges
CES	Cooperative Extension Service
CHE	Commissioner of Higher Education
CHIP	Children's Health Insurance Program (also SCHIP)
CIO	Chief Information Officer
COPP	Commissioner of Political Practices
COT	College of Technology, followed by campus designation
CPI	Consumer Price Index
DEQ	Department of Environmental Quality
DMA	Department of Military Affairs
DNRC	Department of Natural Resources and Conservation
DOA	Department of Administration
DOAg	Department of Agriculture
DOC	Department of Commerce
DOC	Department of Corrections
DOJ	Department of Justice
DOLI	Department of Labor and Industry
DOR	Department of Revenue
DOT	Department of Transportation
DP	Decision Package
DPHHS	Department of Public Health and Human Services
ES	Extension Service
FCES	Forestry and Conservation Experiment Station
FMAP	Federal Medical Assistance Percentage (Medicaid match rate)
FSR	Federal Special Revenue
FSTS	Fire Services Training School
FTE	Full-Time Equivalent
FWP	Department of Fish, Wildlife, and Parks
FFY	Federal Fiscal Year
FY	Fiscal Year
FYE	Fiscal Year End
GAAP	Generally Accepted Accounting Principles
GF	General Fund
GSL	Guaranteed Student Loan
GTB	Guaranteed Tax Base
HB	House Bill
HAC	House Appropriations Committee

HMK	Healthy Montana Kids
HRD	Health Resources Division
HSRA	Highways Special Revenue Account
I&I	Interest and Income
IT	Information Technology
ITSD	Information Technology Services Division
LAD	Legislative Audit Division
LEPO	Legislative Environmental Policy Office
LFA	Legislative Fiscal Analyst
LFC	Legislative Finance Committee
LFD	Legislative Fiscal Division
LRBP	Long-Range Building Program
LRITP	Long-Range Information Technology Program
LRP	Long-Range Planning
LSD	Legislative Services Division
MAC	Montana Arts Council
MBARS	Montana Budgeting, Analysis, and Reporting System
MBCC	Montana Board of Crime Control
MBMG	Montana Bureau of Mines and Geology
MCA	Montana Code Annotated
MCHA	Montana Comprehensive Health Association
MDC	Montana Developmental Center
MDT	Montana Department of Transportation
MHP	Montana Highway Patrol
MHS	Montana Historical Society
MSDB	Montana School for the Deaf and Blind
MSF	Montana State Fund
MSL	Montana State Library
MSP	Montana State Prison
MSU	Montana State University, followed by campus designation i.e. MSU – Bozeman
MUS	Montana University System
MWP	Montana Women's Prison
NP	New Proposal
OBPP	Office of Budget and Program Planning (Gov.)
OCHE	Office of the Commissioner of Higher Education
OPI	Office of Public Instruction
OTO	One-Time-Only
PERS	Public Employees Retirement System
PL	Present Law
PPACA	Patient Protection and Affordable Care Act (Federal Health Care Reform)
PSC	Public Service Commission
PSR	Public Service Regulation
QSFP	Quality School Facilities Program
RDGP	Reclamation and Development Grant Program
RIGWA	Resource Indemnity and Groundwater Assessment Tax
RIT	Resource Indemnity Trust
RRGL	Renewable Resource Grant & Loan Program
RTIC	Revenue & Transportation Interim Committee
SA	Statutory Appropriation
SABHRS	Statewide Accounting, Budgeting, and Human Resources System
SAFETEA-LU	Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users
SAO	State Auditor's Office
SAVA	State Administration & Veterans' Affairs Interim Committee
SB	Senate Bill
SBECP	State Building Energy Conservation Program
SF&C	Senate Finance and Claims Committee
SLTC	Senior & Long-Term Care Division
SOS	Secretary of State
SSR	State Special Revenue
SWPLA	Statewide Present Law Adjustment
TANF	Temporary Assistance for Needy Families
TRS	Teachers' Retirement System
TSEP	Treasure State Endowment Program
TESPRW	Treasure State Endowment Program Regional Water Systems
UM	University of Montana, followed by campus designation i.e. UM – Missoula

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